THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in **China High Speed Transmission Equipment Group Co., Ltd.**, you should at once hand this circular to the purchaser or transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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)

(1) MAJOR TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 43% EQUITY INTEREST IN NANJING HIGH SPEED; AND (2) POSSIBLE MAJOR TRANSACTION IN RELATION TO THE GRANT OF PUT OPTION

A letter from the Board is set out on pages 6 to 29 of this circular.

This circular is despatched to the Shareholders for information purpose only, and a written Shareholder's approval has been obtained in lieu of holding a general meeting of the Company pursuant to the Listing Rules.

* *for identification purposes only*

Hong Kong, 26 May 2021

CONTENT

In this circular, unless the context otherwise requires, the following expressions shall have the following meanings:

"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"business day"	a day on which licensed banks are generally open for business in the PRC, excluding a Saturday, a Sunday (unless adjusted to a working day in accordance with applicable laws) or statutory holiday(s) in the PRC
"Call Option"	the Vendor's option to acquire all the equity interest held by the Transferee and the Then Purchaser in Nanjing High Speed after the First Completion Date and the transactions contemplated as particularised in the section headed "**II. THE DISPOSAL** – Call Option" in the Letter from the Board of this circular
"Capital Increase"	the capital contribution by the Employee Partnership Enterprise in an aggregate amount of RMB150 million to the registered capital of Nanjing High Speed pursuant to the capital increase agreement dated 4 December 2020 and entered into among the Employee Partnership Enterprise, Nanjing High Speed and the Vendor
"Company"	China High Speed Transmission Equipment Group Co., Ltd., a company incorporated in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 658)
"Completion Date"	First Completion Date or Second Completion Date (as the case may be)
"Conditions Precedent"	the conditions precedent contained in the Equity Transfer Agreement and each a "Condition Precedent", details of which are set out under the section headed "**II. THE DISPOSAL** – Conditions Precedent" in the Letter from the Board of this circular
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	RMB4.3 billion, being the total consideration payable by the Transferee to the Vendor for the Sale Interest under the Equity Transfer Agreement

"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Sale Interest by the Vendor to the Transferee pursuant to the terms and conditions of the Equity Transfer Agreement
"Employee Partnership Enterprise"	Shanghai Shifu Enterprise Management LLP* (上海釃福企業管理合夥企業(有限合夥)), a limited liability partnership enterprise established in the PRC and the general partner and limited partner of which are Shanghai Shiji and eight partnership enterprises, respectively
"Equity Transfer Agreement"	the equity transfer agreement dated 30 March 2021 entered into among the Purchaser, the Vendor and Nanjing High Speed in relation to, among others, the Disposal and the grant of the Put Option
"First Batch Sale Interest"	representing 37% of the equity interest in Nanjing High Speed
"First Completion Date"	the date on which the industrial and commerce registration for (i) the transfer of First Batch Sale Interest to the Transferee and (ii) the pledge of the First Batch Sale Interest in favour of the Vendor is completed
"Five Seasons"	Five Seasons XVI Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of Fullshare
"Fullshare"	Fullshare Holdings Limited (豐盛控股有限公司), a company established in the Cayman Islands with limited liability, the issued shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 607)
"Fullshare EGM"	the extraordinary general meeting of Fullshare to be convened to approve, among other things, the Equity Transfer Agreement and the transactions contemplated thereunder
"Fullshare Shareholder(s)"	holder(s) of Fullshare's share(s)
"Group"	the Company and its subsidiaries

"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Third Party(ies)"	a person or company who or which is, to the best of the directors of Fullshare and the Directors' knowledge, information and belief, having made all reasonable enquiries, not a connected person of Fullshare and the Company, respectively
"Joint Announcement"	the joint announcement of Fullshare and the Company dated 30 March 2021 in relation to the Equity Transfer Agreement and the grant of the Put Option
"Latest Practicable Date"	18 May 2021, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Nanjing High Speed"	Nanjing High Speed Gear Manufacturing Co., Ltd.* (南京高速齒輪製造有限公司), a company established in the PRC with limited liability, a direct non-wholly owned subsidiary of the Vendor and an indirect non-wholly owned subsidiary of the Company
"NHS Valuation Report"	the valuation report in respect of the valuation of the fair value of the 100% equity interest in Nanjing High Speed as at 31 December 2020 prepared by the Valuer
"Official Authorities"	(i) governments at all levels (including but not limited to states, cities, counties, towns, districts, etc.) of any country and region, and any entity that exercises administrative, legislative, judicial, management, tax or other government functions; (ii) any international public organisation; (iii) any agency, department, branch or other political subordinate agency of the government, entity or organisation mentioned in (i) and (ii) above; (iv) any company, business, enterprise or other entity owned, partly owned or controlled by any government, institution, organization or other entity mentioned in (i), (ii), and (iii) above; and (v) regulatory authority in Hong Kong that has jurisdiction over the Vendor's direct and/or indirect controlling shareholders

"PRC" or "China"	the People's Republic of China, which for the purpose of this circular, excludes Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan
"Purchaser"	Shanghai Wensheng Asset Management Co., Ltd. (上海文盛資產管理股份有限公司), a company established in the PRC with limited liability
"Put Option"	the option of the Transferee to request the Vendor to repurchase all the equity interest of Nanjing High Speed acquired by the Transferee pursuant to the Disposal as particularised in the section headed "**II. THE DISPOSAL** – Put Option" in the Letter from the Board of this circular
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Interest"	the First Batch Sale Interest and the Second Batch Sale Interest
"Second Batch Sale Interest"	representing 6% of the equity interest in Nanjing High Speed
"Second Completion Date"	the date on which the industrial and commerce registration for the transfer of Second Batch Sale Interest to the Transferee is completed
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shanghai Shiji"	Shanghai Shiji Enterprise Management Consultancy Co., Ltd.* (上海釃吉企業管理諮詢有限公司), a company established in the PRC on 11 August 2020 with limited liability, which is principally engaged in investment holding business and is wholly-owned and controlled by Mr. Hu Yueming, an executive Director
"Share(s)"	ordinary share(s) of US$0.01 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

"Transferee"	Shanghai Qiwo Enterprise Management Partnership (Limited Partnership)* (上海其沃企業管理合夥企業(有限合夥)), a partnership established in the PRC with limited liability
"US$" or "USD"	United States dollars, the lawful currency of the United States of America
"Valuer" or "AVISTA"	AVISTA Valuation Advisory Limited, an independent valuer engaged by the Company to conduct the valuation of the fair value of 100% equity interest of Nanjing High Speed
"Vendor" or "Nanjing Gear"	Nanjing Gear Enterprise Management Co., Ltd.* (南京高齒企業管理有限公司), a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company
"%"	per cent.

* *for identification purposes only*

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)

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

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

Principal place of business in Hong Kong:
Room 1302, 13th Floor, COFCO Tower
No. 262 Gloucester Road
Causeway Bay
Hong Kong

26 May 2021

To the Shareholders,

Dear Sir or Madam,

(1) MAJOR TRANSACTION IN RELATION TO THE PROPOSED DISPOSAL OF 43% EQUITY INTEREST IN NANJING HIGH SPEED; AND (2) POSSIBLE MAJOR TRANSACTION IN RELATION TO THE GRANT OF PUT OPTION

I. INTRODUCTION

The Board refers to the Joint Announcement in relation to the Disposal and the transactions contemplated thereunder. On 30 March 2021 (after trading hours of the Stock Exchange), the Vendor, an indirect wholly-owned subsidiary of the Company, and Nanjing High Speed entered into the Equity Transfer Agreement with the Purchaser, pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase the Sale Interest at the Consideration of RMB4.3 billion.

* *for identification purposes only*

The purpose of this circular is to provide you with, among other things, further details of the Equity Transfer Agreement and the transactions contemplated thereunder and other information as required under the Listing Rules.

II. THE DISPOSAL

The major terms of the Equity Transfer Agreement, among others, are summarised below:

Date: 30 March 2021 (after trading hours)

Parties:
(1) the Purchaser;

(2) the Vendor; and

(3) Nanjing High Speed

Pursuant to the Equity Transfer Agreement, if the Transferee is not the Purchaser itself, the identity of the Transferee is restricted to be a legal entity controlled or jointly controlled directly or indirectly by the Purchaser. The Transferee is not the Purchaser itself and the Transferee is Shanghai Qiwo Enterprise Management Partnership (Limited Partnership)* (上海其沃企業管理合夥企業(有限合夥)), a partnership established in the PRC with limited liability. Further information of the Purchaser and the Transferee has been disclosed in the section headed "**VIII. INFORMATION OF THE PURCHASER AND THE TRANSFEREE**" in the Letter from the Board of this circular.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, each of the Purchaser, the Transferee and their respective ultimate beneficial owners is a third party independent of the Company and its connected persons.

Equity interest to be disposed of

The Sale Interest, comprising the First Batch Sale Interest (representing 37% of the equity interest in Nanjing High Speed) and the Second Batch Sale Interest (representing 6% of the equity interest in Nanjing High Speed), to be transferred to the Transferee.

Earnest money

Within seven (7) days upon signing of the Equity Transfer Agreement, the Purchaser shall pay an earnest money in the amount of RMB500,000,000 (the "**Earnest Money**") into a designated account of the Vendor.

If the Transferee is not the Purchaser, the Earnest Money paid by the Purchaser shall be deemed as the Earnest Money paid by the Transferee.

RMB400,000,000 of the Earnest Money shall serve as a deposit (the "**Deposit**"). If the Transferee fails to pay the Consideration timely in accordance with the terms and conditions of the Equity Transfer Agreement, the Vendor shall have a right to terminate the Equity Transfer Agreement and if the Vendor terminates the Equity Transfer Agreement as a result of the breach, the Vendor shall have a right to forfeit the Deposit.

As at the Latest Practicable Date, the Vendor has received the Earnest Money from the Purchaser.

Consideration

The Consideration is in the sum of RMB4.3 billion payable by the Transferee to the Vendor by way of cash in the following manner:

(1) RMB1,000,000,000 to the Vendor within 7 days after all the Conditions Precedent are satisfied (the "**First Instalment**"). The Earnest Money can be applied as part of the First Instalment;

(2) RMB2,700,000,000 to the Vendor within 1 month after all the Conditions Precedent are satisfied (the "**Second Instalment**"); and

(3) RMB600,000,000 to the Vendor within 3 months after all the Conditions Precedent are satisfied (the "**Remaining Instalment**").

After the First Instalment is paid, if the Transferee fails to settle the Second Instalment and/or the Remaining Instalment within the prescribed time, the Transferee shall, within ten (10) business days after 1 month or 3 months after all the Conditions Precedent are satisfied (as the case may be), return the First Batch Sale Interest to the Vendor at once and the Vendor shall return the First Instalment and/or the Second Instalment less the losses (as described below) incurred by the Vendor in one lump sum to the Transferee without interest and have a right to terminate the Equity Transfer Agreement. The Purchaser and the Transferee shall jointly and severally liable for the losses associated with the return (including but not limited to the tax expenses incurred during the transfer of First Batch Sale Interest from the Vendor to the Transferee) incurred by the Vendor. The Vendor is entitled to deduct the amount of losses and the Deposit from the First Instalment and/or the Second Instalment before returning the remaining amount of the First Instalment and/or the Second Instalment to the Transferee. The Purchaser undertakes that it shall procure the Transferee to include the aforesaid in the First Batch Transfer Agreement (as defined hereunder), failing which, the Vendor shall have the right to refuse to execute the First Batch Transfer Agreement.

Basis of consideration

The Consideration is determined with reference to (i) the preliminary appraised value (the "**Preliminary Value**") of 100% equity interest of Nanjing High Speed as at 31 December 2020, which amounts to approximately RMB9,916,000,000 under the preliminary valuation conducted by the Valuer; (ii) the unaudited financial statements of Nanjing High Speed for the ten months ended 31 October 2020; and (iii) the arm's length negotiations between the Vendor and the Purchaser.

Except for the share-based payment expenses in relation to the Capital Increase by Employee Partnership Enterprise of RMB547,674,000 which is one-off in nature, there is no other material change on the financial performance of Nanjing High Speed after 1 November 2020.

Based on the NHS Valuation Report, the appraised value (the "**Appraised Value**") of Nanjing High Speed was RMB9,916,000,000 as at 31 December 2020 and 43% of the corresponding Appraised Value was RMB4,263,880,000, which the Consideration represented a premium of approximately 0.85% over such value.

In addition, the Consideration represents a premium of approximately 89.88% over the 43% of the net asset value of Nanjing High Speed of approximately RMB2,264.6 million as of 31 December 2020.

The Company has engaged the Valuer to prepare the NHS Valuation Report as set out in Appendix V of this circular. The Directors have reviewed and enquired the Valuer's qualifications and experience in relation to the performance of the valuation. The Directors believe upon making reasonable enquiries that the Valuer is a professional valuation company experienced in performing valuation. Based on the information provided by the Valuer (i.e. company brochure and previous experience) and after making reasonable enquires, the Directors are of the view that the Valuer possesses the necessary competence and independence in preparing the NHS Valuation Report.

The Directors discussed the NHS Valuation Report with the Valuer and understand that regarding the valuation methodology adopted in the NHS Valuation Report, the Directors note that the Valuer has considered all the commonly adopted valuation approaches in the market (namely, asset approach, market approach and income approach) for the purpose of determining the Preliminary Value and the Appraised Value of the 100% equity interest of Nanjing High Speed and is of the view that the market approach is the most appropriate valuation methodology in the case of Nanjing High Speed.

The Directors also note that the Valuer adopted the comparable company method under the market approach. Given the fact that, as at 31 December 2020, no recent comparable transaction can be identified, the comparable transactions method was not adopted to prepare the aforesaid valuation. Under such comparable company method, the Valuer assessed the value of 100% equity interest of Nanjing High Speed with reference to the price-to-earnings multiples of an exhaustive list of the comparable companies principally engaged in manufacturing and sale of energy generation equipment in the PRC.

The Directors have also reviewed the selection criteria of the comparables used by the Valuer and the source of the comparables' data. Based on the NHS Valuation Report, the selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guide the market in reaching the expected returns for companies with certain similar attributes.

There are in total of seven comparable public companies which were selected with reference to the following selection criteria:

- The companies are in the industry of electrical equipment or industrial conglomerates, or sub-industry of industrial machinery, under Global Industry Classification Standard, as extracted from S&P Capital IQ;
- The principal business of the companies is the provision of the manufacturing and sales of energy generation equipment;
- The principal business activities of the companies are mainly conducted in the PRC;
- The companies are listed in all major exchange markets in the United States of America or Hong Kong;
- The companies are profit-making in the trailing 12-months as of 31 December 2020; and
- The financial information of the companies is available to the public.

The Valuer has considered a number of companies whose main business operations are principally engaged in manufacturing and sales of energy generation equipment in the world and is of the view that the seven comparable companies are the most relevant as comparables to Nanjing High Speed in terms of industry and operating location of the business amongst other selection criteria. Please refer to the valuation report as set out in Appendix V to this circular for further details. After taking into account the selection criteria above and having discussed with the Valuer, the Board considers that the selection of the seven comparable companies is exhaustive and sufficient in the context of the disposal of Nanjing High Speed and for valuation purposes, and hence the seven comparable companies selected are fair and representative sample.

As disclosed in the NHS Valuation Report, the net profit attributable to the owners of Nanjing High Speed for the twelve months ended 31 October 2020 (the "**Net Profit**") of approximately RMB1,037,838,000 was adjusted by one-off foreign exchange losses arisen from intercompany balances of approximately RMB12,507,000 and other one-off gains of approximately RMB36,795,000 (including net impairment losses on financial assets of approximately RMB59,758,000, government subsidies of approximately RMB105,721,000, impairment losses on property, plant and equipment of approximately RMB8,962,000, fair value gains of approximately RMB9,894,000, investment gains of approximately RMB9,094,000, losses on disposal of assets of approximately RMB8,078,000 and net tax impact arisen from other one-off losses of approximately RMB11,117,000), of which these items are considered as non-recurring in nature. The Directors have reviewed the consolidated financial statements of Nanjing High Speed for the year ended 31 December 2019 and the ten months ended 31 October 2019 and 31 October 2020, and discussed with the management of Nanjing High Speed to understand the underlying nature of the one-off foreign exchange losses arisen from intercompany balances and other one-off gains/(losses) items. Also, according to the letter from the auditor of Fullshare and the Company, Baker Tilly Hong Kong Limited ("**Baker Tilly**"), dated 30 March 2021 as enclosed in the Joint Announcement, Baker Tilly reviewed the accounting policies and calculations of the Net Profit and is of the view that the Net Profit has been presented on a basis consistent in all material respects with the accounting policies normally adopted by the Company and their respective subsidiaries. Based on the above, the Directors consider the relevant figures and adjustments on the Net Profit are accurate and complete.

The following table sets out the income statement of Nanjing High Speed for the twelve months ended 31 October 2020:

	For the twelve months ended 31 October 2020 *(RMB'000)* *(Unaudited)*
Revenue from contracts with customers	12,307,530
Cost of sales	(9,625,762)
Gross profit	2,681,768
Selling and distribution expenses	(358,759)
Administrative expenses	(429,530)
Research and development costs	(501,281)
Net impairment losses recognised on financial assets	(59,758)
Other income	280,608
Other (losses)/gains – net	(117,041)
Operating profit	1,496,007

	For the twelve months ended 31 October 2020 *(RMB'000)* *(Unaudited)*
Finance income	60,628
Finance costs	(329,812)
Finance costs – net	(269,184)
Profit before income tax	1,226,823
Income tax expenses	(179,787)
Profit for the year	1,047,036
Profit/(loss) attributable to:	
– Owners of Nanjing High Speed	1,037,838
– Non-controlling interests	9,198
	1,047,036

The non-recurring items adjustments on the profit attributable to owners of Nanjing High Speed for the twelve months ended 31 October 2020 are set out below:

	(RMB'000) *(Unaudited)*
Profit attributable to owners of Nanjing High Speed	1,037,838
One-off foreign exchange losses arisen from intercompany balances(note 2)	12,507
Other one-off (gain)/loss:	
Net impairment losses on financial assets(note 1)	59,758
Government subsidies(note 3)	(105,721)
Impairment losses on property, plant and equipment(note 1)	8,962
Net fair value gains on financial assets at fair value through profit or loss(note 1)	(9,894)
Investment gain(note 1)	(9,094)
Losses on disposal of property, plant and equipment, net(note 1)	8,078
Net tax impact arisen from the other one-off losses	11,117
Adjusted net profit attributable to owners of Nanjing High Speed	1,013,551

Notes:

1. These items are defined in Bloomberg database and are considered as non-recurring in nature.

2. Foreign exchange losses arising from intercompany balances which affect the real and fair evaluation of Nanjing High Speed's current operating results and profitability are regarded as one-off losses, regardless of whether they are relevant to the production and operation.

3. Government subsidies arising from the land resumption by the government authority are not relevant to the production and operation and are therefore regarded as one-off gains.

Furthermore, the Directors note that the assumptions and limiting conditions on which the NHS Valuation Report is based are mainly in respect of legal, political and economic environments of where Nanjing High Speed operates, going concern and financial position of Nanjing High Speed as well as limitations in respect of the scope of due diligence performed by the independent valuer, which are general in nature and usually adopted in preparing business valuation.

Given the above, the Directors are satisfied that the methodology and the principal bases and assumptions adopted for the preparation of the NHS Valuation Report are appropriate, and therefore are of the view that the Preliminary Value, which equals to the Appraised Value, serves as a fair and reasonable reference to the fair value of Nanjing High Speed as at 31 December 2020 and the Consideration of RMB4.3 billion, for the shareholding interest in 43% of Nanjing High Speed, is fair and reasonable and is in the interest of the Company and its Shareholders as a whole.

Conditions Precedent

The Vendor and Nanjing High Speed

Unless waived pursuant to the Equity Transfer Agreement, the Vendor and Nanjing High Speed shall facilitate the fulfillment of the following conditions:

(1) the Vendor and Nanjing High Speed shall assist in the due diligence review on Nanjing High Speed and its subsidiaries (if any) (including but not limited to legal, financial and business aspects), and the Purchaser is satisfied with the results of the due diligence review (the Purchaser shall notify the Vendor of its satisfaction in writing);

(2) the Vendor has completed all necessary approval procedures for the Equity Transfer Agreement and the transactions contemplated thereunder, including but not limited to obtaining approval from its board of directors and shareholders;

(3) the Equity Transfer Agreement and the transactions contemplated thereunder have been properly disclosed to the public in accordance with the requirements from the Official Authorities and the relevant laws, and all necessary approvals or consents for the Equity Transfer Agreement and the transactions contemplated thereunder have been obtained from the relevant parties (including but not limited to any government authorities or any related third parties of Nanjing High Speed) (if necessary) and there are no laws or regulations prohibiting the Disposal as at a Completion Date;

(4) other existing shareholders of Nanjing High Speed consented to waive their pre-emptive rights (if any) in relation to the Disposal;

(5) shareholders' approval at the shareholders' meeting of Nanjing High Speed for the Equity Transfer Agreement and the transactions contemplated thereunder has been obtained;

(6) written Shareholders' approval or Shareholders' approval at the general meeting of the Company for the Equity Transfer Agreement and the transactions contemplated thereunder has been obtained in accordance with the Listing Rules;

(7) Fullshare Shareholders' approval at the Fullshare EGM for the Equity Transfer Agreement and the transactions contemplated thereunder has been obtained in accordance with the Listing Rules;

The Purchaser

Unless waived pursuant to the Equity Transfer Agreement, the Purchaser shall facilitate the fulfillment of the following conditions:

(8) the Purchaser has completed all necessary internal procedures for approving the Equity Transfer Agreement and the transactions contemplated thereunder, including but not limited to obtaining approval from its board of directors and shareholders and other internal approval procedures;

(9) all necessary approvals or consents of the relevant parties (including but not limited to the governing regulatory body on stated-owned assets, relevant governmental departments or any related parties of Nanjing High Speed) (if necessary) for the Equity Transfer Agreement and the transactions contemplated thereunder have been obtained and there are no laws or regulations prohibiting the Disposal as at a Completion Date;

(10) the Purchaser shall assist in the due diligence review on the Purchaser and/or the Transferee (as the case may be) (including but not limited to the identity of the ultimate beneficial owner(s) of the Purchaser and/or the Transferee, legal, financial and business aspects), and the Vendor is satisfied with the results of the due diligence review (the Vendor shall notify the Purchaser of its satisfaction in writing); and

(11) the Purchaser is not in breach of the representations and warranties set forth in the Equity Transfer Agreement.

Neither party can waive the conditions set out in paragraphs (3), (6), (7) and (9) above. If any of the conditions set out above (except for paragraphs (6) and (7)) has not been fulfilled or waived (where applicable) by the time when the conditions in paragraphs (6) and (7) have been fulfilled, the Equity Transfer Agreement will be terminated automatically without any liability on the part of the Vendor and the Vendor shall return the Earnest Money in one lump sum to the Purchaser without interest within 30 business days from the date of termination of the Equity Transfer Agreement.

As at the Latest Practicable Date, save for the Conditions Precedent set out in paragraphs (2), (4), (5) and (6), none of the above Conditions Precedent set out above is fulfilled.

Completion

As the Consideration involves a considerable sum (i.e. RMB4.3 billion) payable by way of cash, the parties agreed to divide the payment of Consideration into three instalments in order to provide more flexibility and sufficient time to the Purchaser (or Transferee) in arranging financing of the Consideration. Therefore, the Disposal will be completed in two stages (i.e. the first stage will take place after the payment of the First Instalment and Second Instalment, and the second stage will take place after the payment of Remaining Instalment).

Upon receiving the First Instalment, the Vendor and the Transferee shall on the same date execute the following documents and a designated person of the Vendor, who is jointly authorised by the Vendor and the Transferee, shall on the same date file the same documents for completing relevant industrial and commerce registration in the PRC:

(a) an equity interest transfer agreement in relation to the transfer of First Batch Sale Interest to the Transferee (the "**First Batch Transfer Agreement**"); and

(b) a share pledge agreement in relation to the pledge of First Batch Sale Interest in favour of the Vendor (the "**Share Pledge Agreement**").

The Purchaser shall procure the Transferee to execute the Share Pledge Agreement to the satisfaction of the Vendor and the Share Pledge Agreement shall contain the following major terms, otherwise the Vendor shall have the right to refuse to execute the First Batch Transfer Agreement:

(a) the Share Pledge Agreement is to secure the Transferee's payment obligations of (i) the Second Instalment; (ii) the damages resulting from the failure to pay the Second Instalment; (iii) the compensation resulting from the failure to pay the Second Instalment; and (iv) the reasonable costs and expenses incurred by the Vendor for its enforcement of the payment obligations of the Second Instalment of the Transferee; and

(b) the pledge period shall begin from the date of completing the registration of the Share Pledge Agreement until the full payment of the Second Instalment by the Transferee and the date of payment of the Second Instalment shall be no later than 1 month after all the Conditions Precedent are satisfied.

Within seven (7) days after payment of the Second Instalment by the Transferee, the Vendor shall release the pledge of the First Batch Sale Interest.

Completion of the First Batch Sale Interest shall take place when the industrial and commerce registration for (a) the transfer of First Batch Sale Interest to the Transferee and (b) the pledge of the First Batch Sale Interest in favour of the Vendor is completed. Completion of the First Batch Sale Interest shall take place on the First Completion Date.

Within ten (10) business days upon receiving the Remaining Instalment, the Vendor and the Transferee shall execute and file the equity interest transfer agreement (the "**Second Batch Transfer Agreement**" together with the First Batch Transfer Agreement, the "**Final Transaction Agreements**") for completing relevant industrial and commerce registration in the PRC for the transfer of the Second Batch Sale Interest to the Transferee. Completion of the Second Batch Sale Interest shall take place when the industrial and commerce registration for the transfer of the Second Batch Sale Interest is completed. Completion of the Second Batch Sale Interest shall take place on the Second Completion Date.

Notwithstanding the other terms of the Equity Transfer Agreement, before the Second Completion Date, the Transferee should not transfer or pledge or create any encumbrance on the entire or part of the First Batch Sale Interest externally without obtaining written consent from the Vendor. If the Transferee breaches the aforesaid, the Transferee shall return the First Batch Sale Interest to the Vendor at once and the Vendor shall have a right to terminate the Equity Transfer Agreement unilaterally and shall return the First Instalment and/or the Second Instalment less the losses (as described below) incurred by the Vendor in one lump sum to the Transferee without interest. The Purchaser and the Transferee shall jointly and severally liable for the losses associated with the return (including but not limited to the tax expenses incurred during the transfer of First Batch Sale Interest from the Vendor to the Transferee) incurred by the Vendor. The Vendor is entitled to deduct the amount of losses from the First Instalment and/or the Second Instalment before returning the remaining amount of First Instalment and/or the Second Instalment to the Transferee. The Purchaser undertakes that it shall procure the Transferee to include the aforesaid in the First Batch Transfer Agreement, failing which, the Vendor shall have the right to refuse to execute the First Batch Transfer Agreement.

The identity of the Transferee was yet to be confirmed when the Joint Announcement was published. As advised by the PRC legal advisers to the Vendor, in order to complete the industrial and commerce registration of change in the PRC for the transfer of equity interest in a company established in the PRC and for the purpose of regulatory filing, one of the legal requirements is to disclose the identity of the ultimate purchaser and the vendor in an equity transfer agreement. In view of the aforesaid legal requirement, the Vendor, Nanjing High Speed and the Purchaser agreed that once the identity of the Transferee is confirmed and upon receiving the First Instalment, the Second Instalment and/or the Remaining Installment, the Vendor and the Transferee will execute the First Batch Transfer Agreement and/or the Second Batch Transfer Agreement (where applicable). The First Batch Transfer Agreement and Second Batch Transfer Agreement will include certain major terms of the Equity Transfer Agreement including, among other things, the Sale Interest (for the First Batch Transfer Agreement, the equity interest in Nanjing High Speed to be transferred is 37% and for the Second Batch Transfer Agreement, the equity interest in Nanjing High Speed to be transferred is 6%), the Consideration (for the First Batch Transfer Agreement, the consideration will be RMB3,700,000,000 and for the Second Batch Transfer Agreement, the consideration will be RMB600,000,000), the Call Option and the undertakings mentioned in the paragraph headed "**II. THE DISPOSAL –** The Purchaser's other undertakings" in the Letter from the Board of this circular, but will not include any material terms that are not set out in this circular.

Put Option

During the three years from the Second Completion Date, in the event that the net profit after tax of Nanjing High Speed (i.e. the net profit after tax as appeared in the audited accounts of Nanjing High Speed) of any financial year audited by an accountant engaged by Nanjing High Speed is below RMB1,000,000,000 (the "**Guaranteed Net Profit**"), the Transferee shall have the right to request in writing the Vendor to repurchase all the equity interest of Nanjing High Speed acquired by the Transferee pursuant to the Disposal (the "**Repurchase**") within 30 days after the annual audited consolidated financial statements for the relevant year is presented to the shareholders of Nanjing High Speed. For illustration purpose, if the Second Completion Date falls on a day within 2021, the Transferee shall have the right to request the Vendor to make the Repurchase within 30 days after the respective annual audited consolidated financial statements for each of the financial year 2021, 2022 and 2023 is presented and the audited net profit after tax of Nanjing High Speed for the relevant financial year is below the Guaranteed Net Profit. Provided that no written Repurchase request is made within 30 days after the annual audited consolidated financial statements of the relevant financial year of Nanjing High Speed is presented, the Put Option in respect of such financial year shall lapse.

The Guaranteed Net Profit shall take into account all income and expenses of Nanjing High Speed including but not limited to non-recurring/non-operating items.

Net profit of a company is commonly referred to the "net profit" as appeared in the financial statement and it reflects a company's ability to generate profit for its owners. As such, the Directors and the Purchaser are of the view that the Guaranteed Net Profit represents a full picture of the financial performance of Nanjing High Speed for the purpose of Put Option.

As of the Latest Practicable Date, the directors of Nanjing High Speed and the Directors do not anticipate any significant non-recurring/non-operating gain or loss in the coming three years. In light of the above, the Directors consider the inclusion of the non-recurring/non-operating items to the Guaranteed Net Profit is fair and reasonable.

The repurchase consideration shall be calculated as follows (the "**Repurchase Consideration**"):

$$\text{The actual consideration paid by the Transferee} \times \left(1 + \left(6\% \times \frac{N}{365}\right)\right) - \text{All the benefits (including dividends) (if any) received by the Transferee}$$

N = number of days between the date of receiving the actual consideration in full (i.e. RMB4.3 billion) by the Vendor and the date of receiving the payment of Repurchase Consideration by the Transferee

The interest rate of 6% per annum is determined after arm's length negotiation between the Vendor and the Purchaser with reference to the average cost of financing of the Group for the year ended 31 December 2020 (approximately 6% per annum), which the Directors are of the view that such interest rate stipulated under the Put Option is fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The equity interest of Nanjing High Speed to be repurchased by the Vendor shall be free from any encumbrances.

Upon receipt of the written Repurchase request from the Transferee, the Vendor shall within 50 business days pay the Repurchase Consideration to the Transferee. Upon receiving the Repurchase Consideration, the Transferee shall on the same date file the equity interest transfer documents for completing relevant industrial and commerce registration in the PRC for the transfer of the equity interest in Nanjing High Speed to the Vendor under the Repurchase.

Call Option

Pursuant to the Equity Transfer Agreement, the Purchaser undertakes that after the First Completion Date, the Transferee and its direct/indirect controlling shareholder(s) will not change to a wholly foreign-owned or foreign-controlled legal entity without obtaining prior consent from the Vendor. In the event the Transferee breaches the aforesaid undertaking, the Vendor is entitled at its discretion to request in writing to acquire the entire equity interest held by the Transferee in Nanjing High Speed and the Transferee shall bear the tax payable in connection with the exercise of the Call Option by the Vendor. Subject to the equity interest held by the Transferee at the material time, the maximum consideration payable by the Vendor upon exercise of this Call Option shall be determined by the appraised value of Nanjing High Speed (which is capped at RMB10 billion) less all the benefits (e.g. dividends) (if any) distributed to the Transferee. For illustration purpose, if the Transferee at the material time holds 43% equity interest in Nanjing High Speed, the maximum consideration should be RMB4.3 billion less all the benefits (e.g. dividends) (if any) distributed to the Transferee. The Purchaser also undertakes that it shall procure the aforesaid to be included in the Final Transaction Agreements, failing which, the Vendor shall have the right to refuse to execute the Final Transaction Agreements.

Pursuant to the Equity Transfer Agreement, the Purchaser shall procure the Transferee to give the following written undertaking, failing which, the Vendor shall have the right to refuse to execute the Final Transaction Agreements: after the completion of the Disposal, if the Transferee transfers the equity interest in Nanjing High Speed in the future to another purchaser (the "**Then Purchaser**"), the Transferee shall procure the Then Purchaser to undertake that the Then Purchaser and its direct/indirect controlling shareholder(s) will not change to a wholly foreign-owned or foreign-controlled legal entity without obtaining prior consent from the Vendor. In the event the Then Purchaser breaches the aforesaid undertaking, the Vendor is entitled at its discretion to request in writing to acquire the entire equity interest held by the Then Purchaser in Nanjing High Speed and the Then Purchaser shall bear the tax payable in connection with the exercise of the Call Option by the Vendor. Subject to the equity interest held by the Then Purchaser at the material time, the maximum consideration payable by the Vendor upon exercise of this Call Option shall be determined by the appraised value of Nanjing High Speed (which is capped at RMB10 billion) less all the benefits (e.g. dividends) (if any) distributed to the Then Purchaser. For illustration purpose, if the Then Purchaser at the material time holds 43% equity interest in Nanjing High Speed, the maximum consideration should be RMB4.3 billion less all the benefits (e.g. dividends) (if any) distributed to the Then Purchaser.

The above arrangements are the result of the commercial decision reached by the Vendor, the Purchaser and Nanjing High Speed with a view to minimising management complications resulting from the Transferee (or, where applicable, the Then Purchaser) or its direct or indirect controlling shareholder(s) becoming a wholly foreign-owned or foreign-controlled legal entity. In view of the business nature of Nanjing High Speed, taking into consideration that its operations are mainly in the PRC, save for relevant experience and knowledge of the manufacturing and sale of gear, gear box and fittings, it is essential that the controlling shareholder of Nanjing High Speed and management appointed by it (if any) are familiar with the operation environment and culture in the PRC. Therefore the parties to the Equity Transfer Agreement have reached a consensus to such arrangement.

The exercise of the Call Option may constitute a notifiable transaction on the part of the Company under the Listing Rules. The Company will comply with the relevant requirements under the Listing Rules as and when appropriate should the Vendor exercises the Call Option.

The Purchaser's other undertakings

The Purchaser undertakes that it shall procure the Transferee to execute a confirmation to the satisfaction of the Vendor before the First Completion Date, pursuant to which the Transferee undertakes not to acquire the control of Nanjing High Speed in terms of its equity interests within five years from the Second Completion Date. The Purchaser shall procure the aforesaid to be included in the Final Transaction Agreements, failing which, the Vendor shall have the right to refuse to execute the Final Transaction Agreements.

The Purchaser undertakes that, after the First Completion Date, it shall procure the Transferee not to restrict and to waive its pre-emptive rights (if any) in relation to any equity interest holding plan implemented by Nanjing High Speed for Nanjing High Speed's employees (including its directors), whether in form of a capital increase in Nanjing High Speed or a transfer of equity interest in Nanjing High Speed by the Vendor. The Purchaser shall procure the aforesaid to be included in the Final Transaction Agreements.

The Purchaser undertakes that, if the Transferee is a related third party (a legal entity controlled or jointly controlled directly or indirectly by the Purchaser) designated by the Purchaser, each of the Transferee and its ultimate beneficial owner(s) shall be an Independent Third Party.

Further information on the information of the Purchaser and the Transferee has been disclosed in the section headed "**VIII. INFORMATION OF THE PURCHASER AND THE TRANSFEREE**" in the Letter from the Board of this circular.

III. REASONS FOR AND BENEFITS OF THE DISPOSAL

The Directors consider that the Disposal represents a good opportunity for the Group to realise its investment in Nanjing High Speed. Through the Disposal, on one hand, the Group will be able to strengthen its cashflow, enhance its working capital position and allow for reallocation of its financial resources for the future development. In particular, the Company has long been committed to develop its mechanical transmission equipment business. In recent years, the sales in the Company's mechanical transmission equipment business has maintained a stable growth. As disclosed in the interim report of the Company for the six months ended 30 June 2020, with the support and guidance of the incentive governmental measures for promoting wind power and other environmental protection measures, such as the "Notice on Promulgating the 2020 Wind Power and Solar Power Grid-Parity Projects" (《關於公佈2020年風電、光伏發電平價上網項目的通知》) jointly issued by the National Development and Reform Commission and the National Energy Administration, which introduces that a total of 11.3967GW of wind power grid-parity projects are entitled to grid-parity preferential treatment and reiterates that grid enterprises should be responsible for the grid connection of wind power and the priority dispatch for wind power, it is expected that the grid connection of wind power in China will speed up and the domestic consumption of wind energy will continue to rise. Hence, opportunities for wind power development is expected to arise as a result of the ongoing development. In addition, the Group will continue to develop the industrial gear transmission equipment business and rail transportation gear transmission equipment business as well as diversify its product portfolio including the development and manufacturing of rotate vector (RV) reducer, a transmission device in the industrial robot system in light of the wide adoption of industrial automation and the strong demand for industrial robots in China. According to the website of International Federation of Robotics, a professional non-profit organization established in 1987 to promote research, development, use and international co-operation in the field of robotics worldwide, China has the world's largest industrial robot market since 2013 which accounted for approximately 38% of the world's total installations in 2017, 2018 and 2019.

Against the backdrop of the favourable market conditions and the government support as well as the Company's strong technical expertise and the support of experienced management team, the Company intends to raise funds to increase its production capacity and productivity with a view to continuously improve its market scale and operational efficiency in its mechanical transmission equipment business.

Furthermore, according to a research from QianZhan Industry Research Institute (前瞻產業研究院), the total transaction amount of industrial commodities in China has increased year by year from 2015 to 2019 and it reached RMB269.6 trillion in 2019. To capture the vast market potential of the commodity trading industry in the PRC and broaden its revenue stream, the Company seizes the opportunities to develop its trading business, which commenced in 2012. The trading business of the Company focuses on bulk commodities and steel. The bulk commodities trading business mainly involves the procurement and wholesale of refined oil and electrolytic copper whereas the trading business in steel industry chain mainly involves the procurement and wholesale of coal, coke (the raw material of steel) and steel.

On the other hand, the Board considers that the Disposal represents an opportunity to broaden the shareholder base of Nanjing High Speed, considering that the Purchaser is a quality and resourceful investment firm in the PRC and that the strong investor profile of Purchaser will in turn boost the investor confidence in the market and may bring in additional resources and investment opportunities to Nanjing High Speed and the Company, while the Group will be able to remain control of Nanjing High Speed as it will remain as an indirect non-wholly owned subsidiary of the Company upon completion of the Disposal and will continue to enjoy the benefits from the growth and development of Nanjing High Speed as a controlling shareholder of Nanjing High Speed. In light of the above, the Board is of the view that (i) the terms of the Equity Transfer Agreement (including the Consideration, the Call Option and the Put Option) and the transactions contemplated thereunder are fair and reasonable; (ii) the Equity Transfer Agreement is on normal commercial terms; and (iii) the entering into of the Equity Transfer Agreement is in the best interest of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, the Company has not entered into any negotiation, agreement, arrangement, undertaking and understanding in respect of acquisition or investment in any business.

The Company will continue to focus on its existing business. As at the Latest Practicable Date, the Company has no current intention to downsize, cease, sell and/or dispose of its existing businesses although it will periodically review the performance and prospects of its business and the appropriate deployment/allocation of resources available to the Group to its business.

IV. USE OF PROCEEDS

The expected net proceeds of the Disposal (after deducting transaction costs, professional expenses and tax to be incurred in connection with the Disposal) will be approximately RMB3.5 billion. The Board intends to apply the net proceeds of the Disposal for the following purposes:

(i) approximately RMB1.5 billion will be used for part of the costs for the expansion of the Company's production capacities and strengthening of the Company's research and development capabilities (the "**Expansion**"). The allocation of RMB1.5 billion for the Expansion will be as follows:

Purposes	Details	Estimated costs *(RMB'000)*
(a) Acquisition of lands	The Company intends to expand its production capacities in mechanical transmission equipment by acquiring lands and constructing new production plants, new production lines, new assembly lines and other ancillary facilities since the demand for the wind gear transmission equipment and industrial gear transmission equipment is expected to rise in the coming years and the existing production plants have reached their respective maximum production capacities.	200,000
(b) Construction of new production plants, new production lines, new assembly lines and other ancillary facilities		500,000

Purposes	Details	Estimated costs *(RMB'000)*
(c) Upgrade and renewal of existing production equipment and purchase of production equipment	The Company intends to improve the efficiency, reliability and safety of the production and operation of its existing and new production plants by upgrading and renewing a number of its existing production equipment in its production plants such as gear grinding machines, gear milling machines and planetary gear tooth surface polishing machine and purchasing production equipment for its new production plants.	800,000
Total		1,500,000

(ii) approximately RMB0.6 billion will be used for the development and expansion of trading business to broaden the Company's revenue stream;

(iii) approximately RMB0.9 billion will be used for the partial repayment of short-term bank borrowings (including accrued interest), which the due date of the bank borrowings is within six months from the Latest Practicable Date, to reduce the average costs of financing and capital; and

(iv) approximately RMB0.5 billion for general working capital.

V. FINANCIAL IMPACT OF THE DISPOSAL

Following the completion of the Disposal, the equity interest of the Vendor in Nanjing High Speed will decrease from approximately 93.02% to approximately 50.02%. Nanjing High Speed will continue to be an indirect non-wholly owned subsidiary of the Company and its financial results will continue to be consolidated with the Group's results. The Disposal is accounted for as equity transaction and it is expected that it will have no pre-tax gain or loss to be recognised in profit or loss arising from the Disposal for the Company.

Based on the unaudited pro forma financial information of the Group as set out in Appendix IV to this circular, assuming the Disposal had been completed on 31 December 2020 or both the Disposal and the exercise of the Put Option had been completed on 31 December 2020, the proforma equity attributable to the Shareholders would be approximately RMB9,117 million and approximately RMB11,367 million respectively as compared to approximately RMB12,215 million as at 31 December 2020 as reported in the audited financial statements of the Group for the year ended 31 December 2020.

Shareholders should note that the unaudited pro forma financial information of the Group has been prepared for illustrative purpose only, and because of its hypothetical nature, it may not give the true picture of the financial position of the Group following completion of the Disposal and the exercise of the Put Option or any future date. Moreover, since the actual fair value of the assets and liabilities of Nanjing High Speed may be different at completion of the Disposal and the exercise of the Put Option as compared to their respective values used in the preparation of the unaudited pro forma financial information of the Group, the actual financial effects of the Disposal and the Put Option may be different from the financial information shown in Appendix IV to this circular.

Further details are set out in "**APPENDIX IV – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP**" to this circular.

VI. INFORMATION OF THE GROUP AND THE VENDOR

The Company is a company incorporated in the Cayman Islands with limited liability, whose issued shares are listed on the Stock Exchange under the stock code 658. The Group is principally engaged in the research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use.

The Vendor is an indirect wholly-owned subsidiary of the Company, and is principally engaged in investment holding business.

VII. INFORMATION ON NANJING HIGH SPEED

Nanjing High Speed is a company established under the laws of the PRC with limited liability, a direct non-wholly owned subsidiary of the Vendor, and an indirect non-wholly owned subsidiary of the Company. Nanjing High Speed has a registered capital of RMB2,150,000,000 as at the Latest Practicable Date, of which approximately 93.02% is owned by the Vendor and approximately 6.98% is owned by the Employee Partnership Enterprise respectively. Nanjing High Speed is principally engaged in manufacturing and sale of gear, gear box and fittings.

Set out below is the financial information of Nanjing High Speed as extracted from the accountants' report of Nanjing High Speed for the two years ended 31 December 2020, respectively:

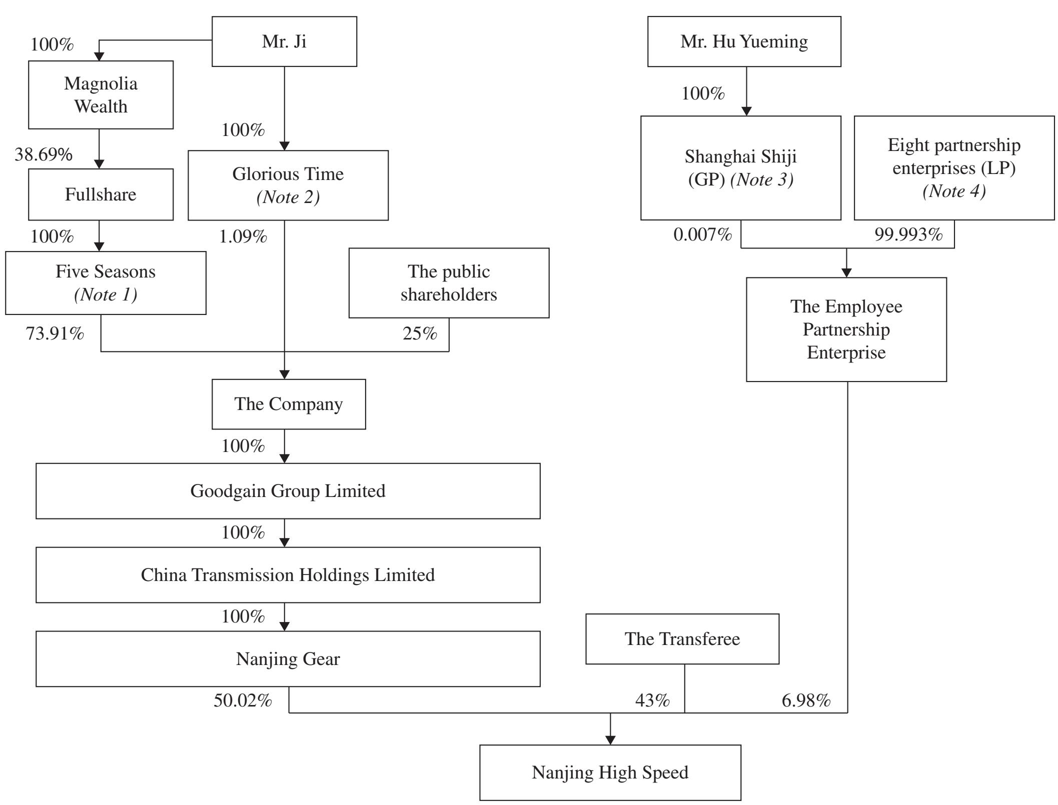
	For the year ended 31 December 2020 *(RMB'000)* *(Note 1)*	For the year ended 31 December 2019 *(RMB'000)* *(Note 1)*
Revenue from contracts with customers	13,181,084	9,420,303
Profit before income tax	1,028,191	345,080
Profit for the year	802,475	207,551
Net assets	5,275,008	8,901,176

Note:

1. The Group underwent an internal restructuring in May 2020.

Further details on the financial information of Nanjing High Speed are set out in "**APPENDIX II – ACCOUNTANT'S REPORT OF NANJING HIGH SPEED**" to this circular.

Upon completion of the Disposal, the equity interest of the Vendor in Nanjing High Speed will decrease from approximately 93.02% to approximately 50.02%. Set out below is the shareholding structure of Nanjing High Speed upon completion of the Disposal:



Notes:

1. Five Seasons, a company incorporated in the British Virgin Islands, is wholly-owned by Fullshare, while the issued share capital of Fullshare is owned as to approximately 38.69% by Magnolia Wealth International Limited ("**Magnolia Wealth**") as at the Latest Practicable Date, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Ji Changqun ("**Mr. Ji**"). Accordingly, Fullshare, Magnolia Wealth and Mr. Ji are considered to have interests in 1,208,577,693 Shares, representing approximately 73.91% of the issued shares of the Company.

2. Glorious Time Holdings Limited ("**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, representing approximately 1.09% of the issued shares of the Company.

3. The general partner of the Employee Partnership Enterprise is Shanghai Shiji. Mr. Hu Yueming, an executive Director, is the sole director and sole shareholder of Shanghai Shiji.

4. Apart from Shanghai Shiji, 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)), 14.75% by Shouguang Ruiding Information Consultancy Services LLP* (壽光瑞鼎信息諮詢服務合夥企業(有限合夥)), 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)), 10.06% by Shouguang Dingwang Information Consultancy Services LLP* (壽光鼎旺信息諮詢服務合夥企業(有限合夥)), 12.06% by Shouguang Dingying Information Consultancy Services LLP* (壽光鼎盈信息諮詢服務合夥企業(有限合夥)), 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)), 6.68% by Shouguang Dingjian Information Consultancy Services LLP* (壽光鼎健信息諮詢服務合夥企業(有限合夥)) and 6.47% by Shouguang Dingmin Information Consultancy Services LLP* (壽光鼎敏信息諮詢服務合夥企業(有限合夥)), all of which are limited partners. Each of the eight partnership enterprises is a limited liability partnership established under the laws of the PRC and the general partner of which is Shanghai Shiji. The limited partners of each of the eight partnership enterprises are the designated employees of the Group. The limited partners of the eight partnership enterprises consist of 276 natural persons.

VIII. INFORMATION OF THE PURCHASER AND THE TRANSFEREE

The Purchaser is established in the PRC with limited liability in 2006. As at the Latest Practicable Date, as informed by the Purchaser, the Purchaser is principally engaged in asset management, business and management consulting and investment management and has extensive experience in domestic capital market. The value of the loan cooperation funds (債權合作基金), which are under the management of the Purchaser, is approximately RMB100 billion and the funds include investments in new energy. It has branches in Shanghai, Beijing, Hangzhou, Nanjing and Guangzhou, and provides investment services to clients in 20 provinces and municipalities in the Beijing-Tianjin-Hebei, Yangtze River Delta and Pearl River Delta region and to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, (i) the Purchaser has a diverse shareholder base with more than 15 shareholders and is owned as to approximately 30.44% by Zhejiang Wenhua Holdings Co., Ltd. (浙江文華控股有限公司) ("**Zhejiang Wenhua**"), being the single largest shareholder, and Zhejiang Wenhua is owned by Mr. Zhou Zhijie (周智杰) (as to 99%) and Mr. Zhou Xianfeng (周先鋒) (as to 1%) respectively. The other shareholders of the Purchaser include China Orient Asset Management Co., Ltd. (中國東方資產管理股份有限公司) (which holds approximately 3.58% of the Purchaser) and Zhongjin Pucheng Investment Co., Ltd. (中金浦成投資有限公司) (which holds approximately 1.66% of the Purchaser), which is a direct wholly-owned subsidiary of China International Capital Corporation Limited (中國國際金融股份有限公司) (stock code: 601995), a company whose shares are listed on the Shanghai Stock Exchange and (ii) each of the Purchaser, Zhejiang Wenhua, Mr. Zhou Zhijie (周智杰), Mr. Zhou Xianfeng (周先鋒), and the other shareholders and the ultimate beneficial owners of the Purchaser is a third party independent of both the Company and its connected persons.

As advised by the Purchaser, the Transferee is a limited partnership established in the PRC on 24 December 2020, mainly engaged in corporation management, business consulting, and information technology consulting business etc. As of the Latest Practicable Date, the partners of the Transferee are Hangzhou Wensheng Xiangwen Asset Management Co., Ltd.* (杭州文盛祥文資產管理有限公司) ("**Wensheng Xiangwen**") (being the sole limited partner) and Nanjing Jinya Enterprise Management Co., Ltd.* ("**Nanjing Jinya**") (南京錦雅企業管理有限公司) (being the sole general partner). Wensheng Xiangwen is wholly owned by the Purchaser. The ultimate beneficial owners of Nanjing Jinya are the Purchaser (as to 50%) and Mr. Zhang Tao* (張濤) (as to 50%), who is a member of the senior management of the Purchaser. To the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, each of the Transferee, its partners and the ultimate beneficial owner of its partners is a third party independent of both the Company and its connected persons.

As advised by the Purchaser, its roles in the Disposal include but not limited to taking part in the negotiation on the terms of the Equity Transfer Agreement, formulating the investment structure in relation to the acquisition of the Sale Interest, conducting due diligence review on Nanjing High Speed, procuring the obtainment of all necessary approvals or consents for the Equity Transfer Agreement, and arranging for financing of the acquisition of the Sale Interest.

As advised by the Purchaser, at the time of entering into the Equity Transfer Agreement, the investment structure of the transaction, the internal group structure of the Purchaser and financing arrangements of the Consideration were yet to be confirmed. In particular, the Purchaser had yet to decide whether to acquire the Sale Interest by itself or through a legal entity controlled by itself. It was therefore agreed between the parties to the Equity Transfer Agreement that the Transferee is limited to either the Purchaser or a legal entity controlled or jointly controlled directly or indirectly by the Purchaser. In addition, a mechanism was built in the Equity Transfer Agreement to ensure the Transferee and its ultimate beneficial owner(s) are Independent Third Parties, including the Purchaser's undertaking that each of the Transferee and its ultimate beneficial owner(s) shall be an Independent Third Party, and the Purchaser's obligations to assist in the due diligence review on the Purchaser and/or the Transferee. In case the identity of the Transferee is not ascertained, the Vendor is also entitled not to execute the Final Transaction Agreements for the purpose of industrial and commerce registration of the Sale Interest. In light of the above, the Directors decided to execute the Equity Transfer Agreement with the Purchaser even though the identity of the Transferee had not been determined as at the date of the Equity Transfer Agreement.

IX. IMPLICATIONS UNDER 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 Disposal are more than 25% but all are less than 75%, the Disposal constitutes a major transaction for the Company and is, therefore, subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

The grant of the Call Option and Put Option would be treated as a transaction and classified by reference to the percentage ratios pursuant to Rules 14.04(1)(b) and 14.73 of the Listing Rules.

The exercise of the Call Option is at the discretion of the Vendor. According to Rule 14.75(1) of the Listing Rules, on the grant of the Call Option, only the premium (which is nil) will be taken into consideration for calculating the percentage ratios. The Company will comply with the then relevant Listing Rules on the exercise of the Call Option (where required).

The Put Option is exercisable at the discretion of the Transferee upon the occurrence of certain specified events, with the exercise price of the Put Option to be determined in accordance with the terms of the Equity Transfer Agreement. Given that the exercise of the Put Option is not at the Company's discretion, pursuant to Rule 14.74 of the Listing Rules, the grant of the Put Option in the Equity Transfer Agreement will be classified as if it had been exercised. The grant of the Put Option constitutes a possible major transaction for the Company and is therefore subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. The Company will consult with the Stock Exchange as soon as practicable if the classification will change. The Company will comply with the relevant requirements under the Listing Rules as and when appropriate should the Transferee exercise the Put Option.

Pursuant to Rule 14.44 of the Listing Rules, a written Shareholders' approval may be accepted in lieu of holding a general meeting to approve the Equity Transfer Agreement and the transactions contemplated thereunder on the conditions that (i) no Shareholder is required to abstain from voting if a general meeting of the Company is held to approve the Equity Transfer Agreement and the transactions contemplated thereunder; and (ii) approval has been given by a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the Shares in issue giving the right to vote at general meetings to approve the Equity Transfer Agreement and the transactions contemplated thereunder.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no Shareholders or any of their respective associates have any material interest in the Equity Transfer Agreement and the transactions contemplated thereunder and thus none of the Shareholders is required to abstain from voting if the Company were to convene a general meeting for the approval of the Equity Transfer Agreement and the transactions contemplated thereunder.

As at the Latest Practicable Date, Five Seasons, a Shareholder, which holds 1,208,577,693 Shares in issue (representing approximately 73.91% of the issued share capital of the Company) has given its written approval to the Equity Transfer Agreement and the transactions contemplated thereunder and such written approval is accepted in lieu of holding a general meeting. As a result, no extraordinary general meeting will be convened for the Company for the purpose of approving the Equity Transfer Agreement and the transactions contemplated thereunder.

None of the Directors had material interests in the Equity Transfer Agreement and the transactions contemplated thereunder and thus no Directors was required to abstain from voting on the Board resolution(s) to approve the Equity Transfer Agreement and the transactions contemplated thereunder at the Board meeting.

X. ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

XI. GENERAL

Completion of the Disposal is subject to the satisfaction of the Conditions Precedent, and therefore, the Disposal may or may not proceed to completion. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the Shares.

XII. RECOMMENDATION

The Directors (including the independent non-executive Directors) are of the view that the terms of the Equity Transfer Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms or better and in the best interest of the Company and its Shareholders as a whole. The Board would recommend the Shareholders to vote in favour of the ordinary resolution in relation to the Equity Transfer Agreement and the transactions contemplated thereunder if the Company were to convene a general meeting for the approval of the same.

XIII. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text for the purpose of the interpretation.

Yours faithfully
By Order of the Board
China High Speed Transmission Equipment Group Co., Ltd.
HU Jichun
Chairman

1. FINANCIAL INFORMATION OF THE GROUP

Details of the financial information of the Group for each of the years ended 31 December 2018, 2019 and 2020 are disclosed in the following documents of the Company, which have been published and are available on the website of the Stock Exchange (www.hkex.com.hk) and the website of the Company (www.chste.com):

(a) the annual report of the Company for the year ended 31 December 2020 (pages 60 to 204) (https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0428/2021042800425.pdf);

(b) the annual report of the Company for the year ended 31 December 2019 (pages 49 to 182) (https://www1.hkexnews.hk/listedco/listconews/sehk/2020/0427/2020042700693.pdf); and

(c) the annual report of the Company for the year ended 31 December 2018 (pages 95 to 266) (https://www1.hkexnews.hk/listedco/listconews/sehk/2019/0426/ltn20190426575.pdf).

2. STATEMENT OF INDEBTEDNESS

As at the close of business on 31 March 2021, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Group had the following indebtedness.

(a) Bank loans and other borrowings

	RMB'000
Secured borrowings	668,190
Unsecured borrowings	2,151,663
	2,819,853

(b) Assets pledged as security

	RMB'000
Bills receivable	1,328,938
Property, plant and equipment	574,551
Land use rights	145,169
Pledged bank deposits	1,545,279
	3,593,937

(c) Capital commitments

	RMB'000
Contracted, but not provided for:	
Purchase of property, plant and equipment	817,707

(d) Financial guarantees

As at 31 March 2021, the Group issued financial guarantees to banks in respect of bank loans of RMB267,679 thousands granted to one of the Group's associates and one independent third party. This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At 31 March 2021, an amount of RMB6,916 thousands have been recognised by the Group as liabilities.

(e) Contingent liabilities arising from 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.

As at 31 March 2021, 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 March 2021, based on the assessment of the independent lawyers, a provision amounting to RMB8,066 thousands was accrued by management of the Group.

Save as disclosed above and apart from intra-group liabilities, the Group did not have any loan capital issued and outstanding or authorised or otherwise created but unissued, bank overdrafts or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits, debentures, mortgages, charges, hire purchase commitments or contingent liabilities at the close of business on 31 March 2021.

The Directors confirm that there are no material changes in the indebtedness or contingent liabilities of the Group since 31 March 2021.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the effects of the Disposal, in the absence of any unforeseen circumstances and after taking into account (i) the internal resources of the Group; and (ii) the Group's presently available banking facilities, the Group will have sufficient working capital for its present requirements and for at least the next twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in the research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use.

Future prospects

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. 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 emphasises 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 utilisation 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 important driving force to the transformation of global energy and will enter into a stage of "double speed" in the future development. The further increase of utilisation 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.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants of the Company, Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong.

REPORT ON HISTORICAL FINANCIAL INFORMATION OF NANJING HIGH SPEED GEAR MANUFACTURING CO., LTD

(Incorporated in the People's Republic of China with limited liability)

To the Board of Directors of China High Speed Transmission Equipment Group Co., Ltd.

INTRODUCTION

We report on the historical financial information of Nanjing High Speed Gear Manufacturing Co., Ltd (the "Target Company") and its subsidiaries (together, the "Target Group"), which comprised the consolidated statements of financial position of the Target Group as at 31 December 2018, 2019 and 2020, and the consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the years ended 31 December 2018, 2019 and 2020, and a summary of significant accounting policies and other explanatory information (together referred to as the "Historical Financial Information"). The Historical Financial Information set out on pages II-3 to II-79 forms an integral part of this report, which has been prepared for inclusion in the circular of China High Speed Transmission Equipment Group Co., Ltd. dated 26 May 2021 (the "Circular") in connection with the proposed disposal of 43% equity interests in the Target Company and the grant of put option (the "Proposed Transaction").

DIRECTORS' RESPONSIBILITY FOR THE HISTORICAL FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information, in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

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

OPINION

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the consolidated financial position of the Target Group as at 31 December 2018, 2019 and 2020 and of its consolidated financial performances and its consolidated cash flows of the Target Group for each of the years ended 31 December 2018, 2019 and 2020 in accordance with the basis of preparation set out in Note 2 to the Historical Financial Information.

REPORT ON MATTERS UNDER THE RULES GOVERNING THE LISTING OF SECURITIES ON THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "LISTING RULES") AND THE COMPANIES (WINDING UP AND MISCELLANEOUS PROVISIONS) ORDINANCE

Adjustments

In preparing the Historical Financial Information, no adjustments to the underlying financial statements as defined on page II-10 have been made.

Dividends

We refer to Note 12 to the Historical Financial Information for the dividends paid by the Target Company in respect of each of the years ended 31 December 2018, 2019 and 2020.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 26 May 2021
Gao Yajun
Practising certificate number P06391

NANJING HIGH SPEED GEAR MANUFACTURING CO., LTD
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

	Note	2020 *RMB'000*	2019 *RMB'000*	2018 *RMB'000*
Revenue from contracts with customers	*5*	13,181,084	9,420,303	8,018,085
Cost of sales		(10,119,323)	(7,615,346)	(6,532,838)
Gross profit		3,061,761	1,804,957	1,485,247
Selling and distribution expenses		(364,568)	(347,556)	(280,657)
Administrative expenses		(444,179)	(445,934)	(465,425)
Research and development costs		(494,384)	(382,660)	(329,607)
Share-based payment expenses	*9(a)*	(547,674)	–	–
Net impairment losses recognised on financial assets	*3.1(b)*	(59,050)	(8,144)	(43,620)
Other income	*6*	273,039	107,695	82,078
Other (losses)/gains – net	*7*	(167,437)	58,092	204,669
Operating profit		1,257,508	786,450	652,685
Finance income	*10*	56,685	72,549	111,306
Finance costs	*10*	(286,002)	(512,450)	(641,044)
Finance costs – net		(229,317)	(439,901)	(529,738)
Share of result of a joint venture accounted for using the equity method	*17*	–	(1,469)	–
Profit before income tax		1,028,191	345,080	122,947
Income tax expenses	*11*	(225,716)	(137,529)	(34,016)
Profit for the year		802,475	207,551	88,931
Profit/(loss) attributable to:				
– Owners of the Target Company		796,447	211,501	99,688
– Non-controlling interests		6,028	(3,950)	(10,757)
		802,475	207,551	88,931

The accompanying notes are an integral part of the Historical Financial Information.

NANJING HIGH SPEED GEAR MANUFACTURING CO., LTD
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

	Note	2020 *RMB'000*	2019 *RMB'000*	2018 *RMB'000*
Profit for the year		802,475	207,551	88,931
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		5,749	(8,959)	(16,429)
– Currency translation differences		(21,206)	(7,036)	(5,394)
– Income tax relating to these items	*33*	1,908	(378)	629
		(13,549)	(16,373)	(21,194)
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		48,503	–	–
– Income tax relating to these items	*33*	(7,275)	–	–
		41,228	–	–
Other comprehensive income/(loss) for the year, net of tax		27,679	(16,373)	(21,194)
Total comprehensive income for the year		830,154	191,178	67,737
Total comprehensive income/(loss) for the year attributable to:				
– Owners of the Target Company		824,115	195,139	78,494
– Non-controlling interests		6,039	(3,961)	(10,757)
		830,154	191,178	67,737

The accompanying notes are an integral part of the Historical Financial Information.

NANJING HIGH SPEED GEAR MANUFACTURING CO., LTD
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT 31 DECEMBER 2018, 2019 AND 2020

		2020	2019	2018
	Note	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets				
Property, plant and equipment	*13*	3,537,828	3,679,241	3,517,224
Right-of-use assets	*14*	669,117	681,129	567,075
Goodwill	*15*	26,142	26,142	–
Intangible assets	*16*	–	–	14,825
Investment in a joint venture accounted for using the equity method	*17*	–	–	85,249
Financial assets at fair value through other comprehensive income	*20*	148,503	221	221
Deposits for land leases	*21*	5,890	11,361	46,800
Deferred tax assets	*33*	238,933	153,374	103,043
		4,626,413	4,551,468	4,334,437
Current assets				
Inventories	*22*	3,578,665	2,433,635	2,189,513
Trade receivables	*23*	2,389,257	2,219,077	4,311,692
Other receivables	*23*	825,507	7,218,360	7,574,899
Other financial assets at amortised cost	*19*	–	33,675	–
Prepayments	*24*	78,429	142,988	244,915
Financial assets at fair value through other comprehensive income	*20*	3,322,723	2,775,321	1,365,791
Financial assets at fair value through profit or loss	*25*	330,339	241,820	1,498,206
Income tax prepaid		353	22,477	82,362
Pledged bank deposits	*26*	1,640,286	2,642,560	2,918,913
Cash and cash equivalents	*26*	1,788,260	2,463,284	1,978,403
		13,951,819	20,193,197	22,164,694

	Note	2020 RMB'000	2019 RMB'000	2018 RMB'000
Current liabilities				
Trade payables	29	2,861,619	1,965,126	1,441,160
Bills payable	29	3,229,373	3,884,766	4,525,783
Other payables	29	1,533,226	3,574,647	3,153,888
Borrowings	30	2,178,970	2,824,000	4,960,387
Corporate bonds	30	–	1,914,275	–
Contract liabilities	35	2,185,564	526,499	298,123
Deferred income	31	19,654	17,124	17,196
Income tax payable		135,803	119,115	16,051
Warranty provision	32	578,086	216,457	90,299
		12,722,295	15,042,009	14,502,887
Net current assets		1,229,524	5,151,188	7,661,807
Total assets less current liabilities		5,855,937	9,702,656	11,996,244
Non-current liabilities				
Borrowings	30	–	736	1,105
Corporate bonds	30	–	498,437	2,411,465
Deferred income	31	177,551	180,273	54,283
Warranty provision	32	372,480	97,164	72,528
Deferred tax liabilities	33	30,898	24,870	12,296
		580,929	801,480	2,551,677
Net assets		5,275,008	8,901,176	9,444,567
Capital and reserves				
Share capital	27	2,150,000	2,000,000	2,000,000
Reserves	28	3,094,716	6,869,085	7,408,515
Equity attributable to owners of the Target Company		5,244,716	8,869,085	9,408,515
Non-controlling interests		30,292	32,091	36,052
Total equity		5,275,008	8,901,176	9,444,567

NANJING HIGH SPEED GEAR MANUFACTURING CO., LTD
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

	Attributable to owners of the Target Company					
	Share capital *RMB'000*	**Other reserves** *RMB'000* *(Note 28)*	**Retained earnings** *RMB'000*	**Total** *RMB'000*	**Non-controlling interests** *RMB'000*	**Total equity** *RMB'000*
At 1 January 2018	2,000,000	1,975,273	5,642,905	9,618,178	46,809	9,664,987
Profit/(loss) for the year	–	–	99,688	99,688	(10,757)	88,931
Other comprehensive loss for the year	–	(21,194)	–	(21,194)	–	(21,194)
Total comprehensive income/(loss) for the year	–	(21,194)	99,688	78,494	(10,757)	67,737
Dividends recognised as distribution *(Note 12)*	–	–	(700,000)	(700,000)	–	(700,000)
Acquisition of subsidiaries	–	411,843	–	411,843	–	411,843
Appropriation to statutory reserve	–	41,900	(41,900)	–	–	–
At 31 December 2018	2,000,000	2,407,822	5,000,693	9,408,515	36,052	9,444,567
At 1 January 2019	2,000,000	2,407,822	5,000,693	9,408,515	36,052	9,444,567
Profit/(loss) for the year	–	–	211,501	211,501	(3,950)	207,551
Other comprehensive loss for the year	–	(16,362)	–	(16,362)	(11)	(16,373)
Total comprehensive income/(loss) for the year	–	(16,362)	211,501	195,139	(3,961)	191,178
Acquisition of subsidiaries	–	(734,569)	–	(734,569)	–	(734,569)
Appropriation to statutory reserve	–	4,105	(4,105)	–	–	–
At 31 December 2019	2,000,000	1,660,996	5,208,089	8,869,085	32,091	8,901,176

	Attributable to owners of the Target Company					
	Share capital	**Other reserves**	**Retained earnings**	**Total**	**Non-controlling interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000* *(Note 28)*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	2,000,000	1,660,996	5,208,089	8,869,085	32,091	8,901,176
Profit for the year	–	–	796,447	796,447	6,028	802,475
Other comprehensive income for the year	–	27,668	–	27,668	11	27,679
Total comprehensive income for the year	–	27,668	796,447	824,115	6,039	830,154
Dividends recognised as distribution *(Note 12)*	–	–	(3,850,000)	(3,850,000)	–	(3,850,000)
Business combination under common control	–	(451,982)	(836,414)	(1,288,396)	–	(1,288,396)
New issues of shares	150,000	–	–	150,000	–	150,000
Transactions with non-controlling interests *(Note 41)*	–	(7,762)	–	(7,762)	(7,838)	(15,600)
Share-based payment expenses *(Note 9(a))*	–	547,674	–	547,674	–	547,674
Appropriation to statutory reserve	–	51,054	(51,054)	–	–	–
At 31 December 2020	2,150,000	1,827,648	1,267,068	5,244,716	30,292	5,275,008

NANJING HIGH SPEED GEAR MANUFACTURING CO., LTD
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED 31 DECEMBER 2018, 2019 AND 2020

	Note	2020 *RMB'000*	2019 *RMB'000*	2018 *RMB'000*
Cash flows from operating activities				
Cash generated from operations	*34*	2,967,258	2,579,499	952,957
Income tax paid		(205,777)	(26,512)	(147,031)
Net cash generated from operating activities		2,761,481	2,552,987	805,926
Cash flows from investing activities				
Placements of pledged bank deposits		(4,278,544)	(5,947,923)	(9,464,934)
Withdrawal of pledged bank deposits		5,280,818	6,224,276	9,427,658
Investment in structured bank deposits		(363,000)	(150,000)	(933,000)
Redemption of structured bank deposits		208,861	960,246	100,000
Purchase of financial assets at fair value through other comprehensive income		(100,000)	–	–
Purchases of other financial assets at amortised cost		–	(33,675)	–
Redemption of other financial assets at amortised cost		33,675	–	–
Purchases of property, plant and equipment		(453,607)	(517,694)	(434,521)
Payments for right-of-use assets		(3,642)	(46,950)	–
Proceeds from disposal of property, plant and equipment		37,057	42,263	30,238
Proceeds from disposal of right-of-use assets		4,611	–	–
Proceeds from disposal of joint ventures		–	76,101	–
Net cash inflow on acquisition of a subsidiary		–	1,386	–
Receipt/(paid) from the Company except the Target Company		558,942	(10,398)	70,319
Interests received		71,256	73,479	89,119
Receipt of government grants		19,313	143,041	–
Receipt of loans receivable and other receivables		149,950	–	–
Net cash generated from/(used in) investing activities		1,231,715	814,152	(1,115,121)
Cash flows from financing activities				
Proceeds from borrowings		3,323,970	4,229,197	7,205,561
Repayment of borrowings		(3,962,499)	(6,366,716)	(7,443,380)
Redemption of corporate bonds		(2,420,000)	–	–
Acquisition of interest in a non-wholly-owned subsidiary		(15,600)	–	–
Contributions from non-controlling interests		150,000	–	–
Interest paid		(364,111)	(539,077)	(641,045)
Dividends paid to owners of the Target Company		(1,331,300)	–	(700,000)
Net cash used in financing activities		(4,619,490)	(2,676,596)	(1,578,864)
Net decrease/(increase) in cash and cash equivalents		(692,319)	490,543	(1,888,059)
Cash and cash equivalents at the beginning of the year		2,463,284	1,978,403	3,845,251
Exchange gains/(losses) on cash and cash equivalents		17,295	(5,662)	21,211
Cash and cash equivalents at the end of the year	*26*	1,788,260	2,463,284	1,978,403

NANJING HIGH SPEED GEAR MANUFACTURING CO., LTD
NOTES TO THE HISTORICAL FINANCIAL INFORMATION

1 GENERAL INFORMATION

Nanjing High Speed Gear Manufacturing Co., Ltd (the "Target Company") is a limited liability company incorporated and domiciled in the People's Republic of China. The address of its registered office is located at No.30 Houjiao Road, Jiangning District, Nanjing.

The Target Company and its subsidiaries (together referred to as the "Target 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 wind range of industrial appliances.

This Historical Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The statutory audited financial statements of the Target Group for the years ended 31 December 2018, 2019 and 2020 (collectively referred to as "Underlying Financial Statements") have been prepared in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC and were audited by Baker Tilly International Certified Public Accountants (Special General Partnership), a certified public accountant registered in the PRC.

The preparation of Historical Financial Information 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 Target Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Historical Financial Information are disclosed in Note 4.

(a) New and amended standards adopted by the Target Group

All IFRSs effective for the annual accounting period commencing from 1 January 2018, together with the relevant transitional provisions, have been early adopted by the Target Group in the preparation of the Historical Financial Information throughout all the periods as presented above.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and amendments listed below have been published but are not mandatory to be adopted for the year ended 31 December 2020 and have not been early adopted by the Target Group. These standards and amendments are either currently not relevant to the Target Group or had no material impact on the Target Group's Historical Financial Information.

- Amendments to IFRS 16, 'COVID-19 Related Rent Concessions', effective for the accounting period beginning on or after 30 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 and the related Amendments', effective for the accounting period beginning on or after 1 January 2023

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Target Group has control. The Target Group controls an entity when the Target 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 Target Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

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

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

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

(b) Business combination under common control

In May 2020, the Target Group entered into equity transfer agreements to acquire equity interest in ten companies from two companies under common control, the ten companies include Nanjing High Speed & Accurate Gear (Group) Co., Ltd., Nanjing Nanchuan Intelligent Technology Co., Ltd., NGC Transmission Equipment (America) Inc, NGC North America Transmission Equipment Group, NGC Transmission Europe GmbH, NGC Transmission Asia Pacific Pte Ltd., Nanjing Ningkai Mechanical Co., Ltd., Henan Zhongchuan Equipment Co., Ltd., Zhongchuan Kegong Gaojing Equipment Co., Ltd. and NGC (Baotou) Transmission Equipment Co., Ltd. The Acquisition was completed in May 2020 and thus the ten companies have become subsidiaries of the Target Group. (the "Ten companies").

In May 2020, the Target Group entered into transfer agreements with Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive") and China Transmission Holdings Limited to acquire operating business.

As the Target Group, Nanjing Drive, China Transmission Holdings Limited and the Ten companies are controlled by the same parent, the Acquisition has been accounted for based on the principles of merger accounting.

The consolidated financial statements of the Target Group have been prepared using the merger basis of accounting as if the current group structure has been in existence throughout the years presented. The opening balance at 1 January 2018 has been restated, with consequential adjustments to comparatives for the year ended 31 December 2018 and 2019. The details of the restated balances have been disclosed in Note 44 to the Historical Financial Information.

(c) 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.

(d) Disposal of subsidiaries

When the Target 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 Target Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Target 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 Historical Financial Information 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 Joint arrangements

The Target 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 Target 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 Target 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 Target 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 Target Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Target Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Target Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

The Target 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 Target 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 Target Group and its joint ventures are eliminated to the extent of the Target 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 Target Group.

2.4 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.

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within "Finance income or finance costs". All other foreign exchange gains and losses are presented in the consolidated income statements 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 Target Group's entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

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

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

(d) Disposal of foreign operation and partial disposal

On disposal of a foreign operation (that is, a disposal of the Target Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of joint control over a joint arrangement 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 Target Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Target 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 Target Group's ownership interest in joint arrangements that do not result in the Target Group losing joint control), the proportionate share of the accumulated exchange differences are reclassified to profit or loss.

2.6 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 Target Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

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

Freehold lands	Nil
Buildings	30-35 years
Leasehold improvements	Over the shorter of the lease term or 3 years
Machinery and equipment	5-10 years
Furniture and fixtures	5 years
Transportation equipment	5 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 2.8).

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 statements.

2.7 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.

2.8 Impairment of non-financial assets

Goodwill and intangible assets and freehold lands that have an indefinite useful life are not subject to amortisation or depreciation, and are tested annually for impairment or more frequently when impairment indicator exists. Other 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.

2.9 Investments and other financial assets

2.9.1 Classification

The Target 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 Target 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 Target Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

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

2.9.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Target 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 Target Group has transferred substantially all the risks and rewards of ownership.

2.9.3 Measurement

At initial recognition, the Target 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.

Debt instruments

Subsequent measurement of debt instruments depends on the Target Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Target 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 (losses)/gains – net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statements.

- 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 ("OCI"), 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 OCI 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 (losses)/gains – net", and impairment losses are presented as separate line item in the consolidated income statements.

- 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 (losses)/gains – net" in the period in which it arises.

Equity instruments

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

Changes in the fair value of financial assets at FVPL are recognised in "Other (losses)/gains – net" in the consolidated income statements 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.

2.9.4 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 Target Group's consolidated statement of financial position) when:

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

- The Target 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 Target Group has transferred substantially all the risks and rewards of the asset, or (b) the Target Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Target 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 Target Group continues to recognise the transferred asset to the extent of the Target Group's continuing involvement. In that case, the Target 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 Target 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 Target Group could be required to repay.

2.9.5 Impairment

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

Other financial assets measured at fair value, including units in bond funds, equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the 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 Target Group assumes that there is no significant increase in credit risk since the initial recognition, on first stage, and measures the loss allowances at an amount equal to 12-month expected credit losses. If there has been a significant increase in credit risk or credit impairment has occurred since the initial recognition of a financial instrument, on second stage, the Target Group recognises loss allowances at an amount equal to lifetime expected credit losses. If credit impairment has occurred since the initial recognition of a financial instrument, on third stage, the Target Group recognises loss allowances at an amount equal to lifetime expected credit losses.

For trade receivables, the Target 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.

2.10 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.

2.11 Derivative financial instruments

Derivative financial instruments of the Target 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 Target Group recognises profit or loss on that day.

2.12 Inventories

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

2.13 Trade receivables, bills receivable and other receivables

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

Trade receivables and other receivables is unconditional unless they contain significant financing components when they are recognised at fair value. The Target 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 2.9 for further information about the Target Group's accounting for receivables and for a description of the Target Group's impairment policies.

2.14 Cash and cash equivalents

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

2.15 Restricted cash

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

2.16 Share capital

Ordinary shares are classified as equity.

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

2.17 Trade payables, bills payable and other payables

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

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

2.18 Borrowings

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

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

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

2.19 Borrowing costs

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

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

All other borrowing costs are expensed in the period in which they are incurred.

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

2.20 Current and deferred income tax

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

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Target Company, its subsidiaries 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 Historical Financial Information. 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.

Outside basis differences

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

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries 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.

2.21 Employee benefits

(a) Short-term obligations

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

(b) Pension obligations

The People's Republic of China (the"PRC") employees of the Target 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 Target 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 Target 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 Target 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.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Target Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Target Group recognises termination benefits at the earlier of the following dates: when Target 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 capital reserve is increased accordingly.

2.22 Provisions and contingent liabilities

Provisions

Provisions are recognised when the Target 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 Target 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.

2.23 Revenue recognition

(i) Sales of mechanical transmission equipment

The Target Group manufactures and sells a broad range of mechanical transmission equipment. Sales are recognised when the control of the products has been transferred to the buyer, provided that the Target 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 Target 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 2.27 for further details.

2.24 Interest income

Interest income from financial assets at FVPL is included in "Other Income", see Note 6 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 statements 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.

2.25 Dividend income

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

2.26 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 Target 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 Target 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.

2.27 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 Target Group.

Contracts may contain both lease and non-lease components. The Target 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 Target Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

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

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease 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 Target Group under residual value guarantees;
- The exercise price of a purchase option if the Target Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Target Group exercising that option.

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

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Target 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 Target 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 Target Group, which does not have recent third party financing; and
- Makes adjustments specific to the lease, e.g., term, country, currency and security.

The Target 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 Target 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 Target 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.

2.28 Dividend distribution

Dividend distribution to the Target Company's shareholders is recognised as a liability in the Target Group's Historical Financial Information in the period in which the dividends are approved by the Target Company's shareholders.

2.29 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 Target 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.

2.30 Financial guarantee contracts

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

- the amount of the loss allowances 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.

2.31 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 Target Group transfers the related goods. Contract liabilities are recognised as revenue when the Target Group performs under the contract (i.e., transfers control of the related goods to the customer).

2.32 Related parties

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

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

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

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

(i) The entity and the Target 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 Target 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 Target Group or an entity related to the Target 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 Target Group or to the parent of the Target 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 Target 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 Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Target 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 35%, 31% and 19% of the Target Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 2%, 3% and 2% of costs were not denominated in the functional currency for the years ended 31 December 2018, 2019 and 2020 respectively. The Target Group's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. The Target Group currently did not enter into any hedge under the Target Group's foreign currency risk strategy as the Target Group considers the risk of movements in exchange rates between the above currencies and RMB to be insignificant.

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

	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Assets			
USD	1,028,052	979,993	1,009,104
EUR	204,688	254,603	237,116
HKD	18,744	2,572	2,198
Liabilities			
USD	196,767	54,874	48,909
EUR	1,339	11,319	1,300
HKD	–	–	–

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 Target 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 Target Group's presentation currency are excluded from the analysis.

	Increase/ (decrease) in RMB rate	Increase/ (decrease) in profit after income tax	Increase/ (decrease) in equity*
	%	*RMB'000*	*RMB'000*
For the year ended 31 December 2020			
If the USD weakens against the RMB	5%	(34,894)	–
If the USD strengthens against the RMB	(5%)	34,894	–
If the EUR weakens against the RMB	5%	(8,539)	–
If the EUR strengthens against the RMB	(5%)	8,539	–
If the HKD weakens against the RMB	5%	(772)	–
If the HKD strengthens against the RMB	(5%)	772	–
For the year ended 31 December 2019			
If the USD weakens against the RMB	5%	(38,455)	–
If the USD strengthens against the RMB	(5%)	38,455	–
If the EUR weakens against the RMB	5%	(10,099)	–
If the EUR strengthens against the RMB	(5%)	10,099	–
If the HKD weakens against the RMB	5%	(107)	–
If the HKD strengthens against the RMB	(5%)	107	–
For the year ended 31 December 2018			
If the USD weakens against the RMB	5%	(39,654)	–
If the USD strengthens against the RMB	(5%)	39,654	–
If the EUR weakens against the RMB	5%	(9,802)	–
If the EUR strengthens against the RMB	(5%)	9,802	–
If the HKD weakens against the RMB	5%	(92)	–
If the HKD strengthens against the RMB	(5%)	92	–

* Excluding retained earnings

(ii) Cash flow and fair value interest rate risk

The Target Group's interest rate risk arises from short-term and long-term interest-bearing borrowings and certain financial assets at amortised cost, FVOCI and FVPL. Borrowings and certain financial assets at amortised cost, FVOCI and FVPL obtained at variable rates expose the Target Group to cash flow interest rate risk. Borrowings and certain financial assets at amortised cost, FVOCI and FVPL obtained at fixed rates expose the Target Group to fair value interest rate risk. The Target Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2018 and 2019 the Target Group has RMB1,476,160 thousands and RMB90,000 thousands short-term and long-term interest-bearing borrowings and financial assets at amortised cost and FVPL at floating rate in net. As at 31 December 2020, the Target Group has no short-term and long-term interest-bearing borrowings and financial assets at amortised cost and FVPL at floating rate.

The Target Group's finance department continuously monitors the interest rate position of the Target Group. Increase in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Target Group's outstanding floating rate borrowings, together to increase the interest income and fair values of the respective financial assets at amortised cost and FVPL and therefore could have a material adverse effect on the Target Group's consolidated statements of financial position. The Target Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2018, 2019 and 2020, the Target Group did not enter into any interest rate swap agreements.

As at 31 December 2018, 2019 and 2020, if interest rates on the floating rate borrowings and certain financial assets at amortised cost, FVOCI and FVPL had risen/fallen by 50 basis points while all other variables had been held constant, the Target Group's profit after income tax would have decreased/increased by approximately RMB5,512 thousands, RMB383 thousands and RMBnil as above respectively.

(iii) Equity price risk

The Target Group is exposed to equity price risk through its investment in listed equity securities. The Target Group's equity price risk is mainly concentrated on an equity instrument quoted in the Shanghai Stock Exchange. The Target Group closely monitors the price risk and will consider hedging the risk exposure should the need arise.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. If the price of the listed equity instrument had been 10% higher/lower, the total comprehensive income for the year ended 31 December 2020 would have increased/decreased by approximately RMB14,850 thousands excluding any tax effect as above as a result of the changes in fair value of the listed equity instrument.

(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 receivables carried at FVOCI and financial guarantee contracts, etc.

The Target Group has policies to limit the credit exposure on these aforesaid financial assets. The Target 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 Target 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 Target Group. In respect of customers with a poor credit history, the Target Group will use written payment reminders, or shorten or cancel their credit periods, to ensure the overall credit risk of the Target Group is limited to a controllable extent. The Target Group does not obtain collateral from customers or counterparties in respect of trade and bills receivables.

The Target Group has concentration of credit risk in respect of bank balances and pledged bank deposits. As at 31 December 2018, 2019 and 2020, approximately 77%, 74% and 73% of the total bank balances and pledged bank deposits were deposited at 7, 5 and 5 banks respectively, with deposits at each bank with a balance exceeding 9%, 10% and 7% of total bank balances and pledged bank deposits respectively.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit ratings, the Target Group also has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2018, 2019 and 2020, trade receivables from top five customers accounted for approximately 47%, 25% and 27% of the Target Group's trade receivables respectively. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Target Group had also explored new markets and new customers in order to minimise the concentration of credit risk. Other than the above, there is no other concentration of credit risk on the Target Group's trade and bills receivable.

For other receivables and other financial assets at amortised cost, management makes periodic and collective assessment as well as individual assessment on the recoverability of other receivables and other financial assets at amortised cost based on historical settlement records, past experience, and also quantitative and qualitative forward-looking information that is reasonable and supportive.

(ii) Impairment of financial assets under expected credit loss model

The Target Group has five types of financial assets that are subject to the expected credit loss 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 Target Group applies the simplified approach under IFRS 9 to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

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

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

On that basis, the loss allowances as at 31 December 2020, 2019 and 2018 were determined as follows for trade receivables:

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Over 4 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2020						
Expected credit loss rate	3%	41%	63%	87%	100%	14%
Gross carrying amount – Trade receivables assessed under provisional matrix	2,769,257	87,564	55,952	53,664	202,067	2,768,504
Loss allowances under provision matrix	59,396	35,731	35,507	46,546	202,067	379,247
100% specifically provided	–	11,429	49,168	108,964	17,151	187,512
Loss allowances	59,396	47,160	85,475	155,510	219,218	566,759

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Over 4 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2019						
Expected credit loss rate	3%	23%	45%	85%	100%	16%
Gross carrying amount –Trade receivables assessed under provision matrix	2,057,962	177,228	151,645	49,092	221,156	2,657,083
Loss allowances under provision matrix	66,771	40,283	67,966	41,830	221,156	438,006
100% specifically provided	1,872	24,861	56,320	6,652	951	90,656
Loss allowances	68,643	65,144	124,286	48,482	222,107	528,662

	Less than 1 year	Between 1 and 2 years	Between 2 and 3 years	Between 3 and 4 years	Over 4 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018						
Expected credit loss rate	2%	16%	24%	77%	100%	9%
Gross carrying amount – Trade receivables assessed under provision matrix	3,900,813	391,590	183,972	59,803	217,059	4,753,237
Loss allowances under under provision matrix	70,821	62,662	44,668	46,335	217,059	441,545
100% specifically provided	26,734	56,462	6,510	269	681	90,656
Loss allowances	97,555	119,124	51,178	46,604	217,740	532,201

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

	2020 *RMB'000*	2019 *RMB'000*	2018 *RMB'000*
As at 1 January	528,662	532,201	509,233
Loss allowances recognised in profit or loss	59,685	15,540	30,750
Amounts written off as uncollectible	(21,560)	(19,079)	(7,782)
Currency translation differences	(28)	–	–
As at 31 December	566,759	528,662	532,201

The provision for loss allowances were recognised in profit or loss in net impairment losses on financial assets within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

During the year ended 31 December 2018, 2019 and 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 RMB90,656 thousands and RMB187,512 thousands are made respectively.

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

Trade receivables	**Lifetime ECL (non-credit impaired)** *RMB'000*	**Lifetime ECL (credit impaired)** *RMB'000*	**Total** *RMB'000*
As at 31 December 2017 and 1 January 2018	425,748	83,485	509,233
Changes due to financial instruments recognised as at 1 January 2018:			
– Impairment losses recognised	23,579	7,171	30,750
– Receivables written off during the year as uncollectible	(7,782)	–	(7,782)
As at 31 December 2018 and 1 January 2019	441,545	90,656	532,201
Changes due to financial instruments recognised as at 1 January 2019:			
– Impairment losses recognised	15,540	–	15,540
– Receivables written off during the year as uncollectible	(19,079)	–	(19,079)
As at 31 December 2019 and 1 January 2020	438,006	90,656	528,662

Trade receivables	Lifetime ECL (non-credit impaired) *RMB'000*	Lifetime ECL (credit impaired) *RMB'000*	Total *RMB'000*
As at 31 December 2019 and 1 January 2020	438,006	90,656	528,662
Changes due to financial instruments recognised as at 1 January 2020:			
– Transfer to credit-impaired	(12,353)	12,353	–
– Impairment losses (reversed)/recognised	(24,818)	84,503	59,685
– Receivables written off during the year as uncollectible	(21,560)	–	(21,560)
– Currency translation differences	(28)	–	(28)
As at 31 December 2020	379,247	187,512	566,759

Other receivables and other financial assets carried at amortised cost

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

Category	Group definition of category	Basis for recognition of expected credit loss provision	Expected credit loss rate
Stage one	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 expected credit losses. Where the expected lifetime of an asset is less than 12 months, losses are measured at its expected lifetime	0% – 20%
Stage two	There have been significant increases in credit risk since initial recognition through information developed internally or external sources	Lifetime expected credit losses	20% – 50%
Stage three	There is evidence indicating the receivable is credit impaired	Lifetime expected credit losses	50% – 100%

The loss allowances for other receivables and other financial assets carried at amortised cost as at 31 December reconcile to the opening loss allowances are as follows:

	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January	7,021	14,417	9,202
Loss allowance (reversed)/ recognised in profit or loss	(635)	(7,396)	12,870
Amounts written off as uncollectible	(41)	–	(7,655)
As at 31 December	6,345	7,021	14,417

The following table shows reconciliation of loss allowances that has been recognised for other receivables and other financial assets at amortised cost.

Other receivables and other financial assets at amortised cost	12-months ECL	Lifetime ECL (non-credit impaired)	Lifetime ECL (credit impaired)	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
As at 31 December 2018	7,515	6,902	–	14,417
Changes due to financial instruments recognised as at 1 January 2019:				
– Transfer to credit-impaired	(41)	–	41	–
– Impairment losses (reversed)/recognised	(7,268)	(6,902)	5,808	(8,362)
– Receivables written off during the year as uncollectible	–	–	–	–
New financial assets originated or purchased	179	787	–	966
As at 31 December 2019	385	787	5,849	7,021
Changes due to financial instruments recognised as at 1 January 2020:				
– Transfer to credit-impaired	(23)	–	23	–
– Impairment losses (reversed)/recognised	(245)	(787)	288	(744)
– Receivables written off during the year as uncollectible	–	–	(41)	(41)
New financial assets originated or purchased	109	–	–	109
As at 31 December 2020	226	–	6,119	6,345

Bills receivables carried at FVOCI

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

Financial guarantee contracts

Management considered the internal credit risk of financial guarantee contracts were performing as they have a low risk of default and the counterparties have a strong capacity to meet its contractual payment obligations in the near term, and thus the impairment provision recognised during the period was limited to 12 months expected losses. For the years ended 31 December 2018, 2019 and 2020, no provision for loss allowance were recognised in profit or loss in net impairment losses on financial assets in relation to the financial guarantee contracts.

Net impairment losses on financial assets recognised in profit or loss

For the years ended 31 December 2018, 2019 and 2020, the summary of the net impairment loss recognised in profit or loss is as follows:

	Years ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Impairment losses for trade receivables	59,685	15,540	30,750
(Reversal of)/Impairment losses for other receivables and other financial assets at amortised cost	(635)	(7,396)	12,870
Net impairment losses on financial assets	59,050	8,144	43,620

(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 2018, 2019 and 2020, the Target 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 as at 31 December 2018, 2019 and 2020 is the carrying amount of these investments, which is RMB1,498,206 thousands, RMB241,820 thousands and RMB330,339 thousands respectively.

(c) Liquidity risk

Cash flow forecast is performed by the operating entities of the Target Group and aggregated by the Target Group's finance team. The Target Group's finance team monitors rolling forecasts of the Target 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 Target 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 Target 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 2018, 2019 and 2020, the Target Group held cash and cash equivalents of RMB1,978,403 thousands, RMB2,463,284 thousands and RMB1,788,260 thousands (Note 26) and trade receivables of RMB4,311,692 thousands, RMB2,219,077 thousands and RMB2,708,255 thousands (Note 23) respectively that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Target 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**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018					
Non-derivatives					
Borrowings	5,251,410	165,260	2,673,117	–	8,089,787
Trade payables	1,441,160	–	–	–	1,441,160
Bills payable	4,525,783	–	–	–	4,525,783
Other payables	2,749,370	–	–	–	2,749,370
	13,967,723	165,260	2,673,117	–	16,806,100

Contractual maturities of financial liabilities	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019					
Non-derivatives					
Borrowings	4,930,844	538,236	–	–	5,469,080
Trade payables	1,965,126	–	–	–	1,965,126
Bills payable	3,884,766	–	–	–	3,884,766
Other payables	3,227,232	–	–	–	3,227,232
Financial guarantee contracts	6,637	14,722	–	–	21,359
	14,014,605	552,958	–	–	14,567,563

Contractual maturities of financial liabilities	**Less than 1 year**	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2020					
Non-derivatives					
Borrowings	2,223,313	–	–	–	2,223,313
Trade payables	2,861,619	–	–	–	2,861,619
Bills payable	3,229,373	–	–	–	3,229,373
Other payables	1,262,349	–	–	–	1,262,349
Financial guarantee contracts	14,763	–	–	–	14,763
	9,591,417	–	–	–	9,591,417

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.

3.2 Capital management

The Target Group's objectives when managing capital are to safeguard the Target 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 Target 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 Target 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 2018, 2019 and 2020 are as follows:

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Total assets	18,575,464	24,744,665	26,499,131
Total liabilities	13,309,056	15,843,489	17,054,564
Gearing ratio	71.6%	64.0%	64.4%

3.3 Fair value estimation

The table below analyses the Target Group's financial instruments carried at fair value as at 31 December 2018, 2019 and 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 Target Group is the current bid price. These instruments are included in level 1.
- The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

The following tables set out the Target Group's financial assets that were measured at fair value as at 31 December 2018, 2019 and 2020:

Recurring fair value measurements	**Level 1**	**Level 2**	**Level 3**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2018				
Financial assets				
Financial assets at FVPL	–	–	1,498,206	1,498,206
Financial assets at FVOCI	–	–	1,366,012	1,366,012
	–	–	2,864,218	2,864,218

Recurring fair value measurements	Level 1	Level 2	Level 3	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2019				
Financial assets				
Financial assets at FVPL	–	–	241,820	241,820
Financial assets at FVOCI	–	–	2,775,542	2,775,542
	–	–	3,017,362	3,017,362
At 31 December 2020				
Financial assets				
Financial assets at FVPL	–	–	330,339	330,339
Financial assets at FVOCI	148,503	–	3,322,723	3,471,226
	148,503	–	3,653,062	3,801,565

The management uses discounted cash flow analysis to determine the fair values of financial instruments. 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 Target Group as level 3. The unobservable input which may have impact on the valuation is weighted average cost of capital.

There were no transfers among levels during the years ended 31 December 2018, 2019 and 2020.

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

The following table presents the changes in level 3 items for the years ended 31 December 2018, 2019 and 2020:

	Financial assets at FVPL		Financial assets at FVOCI		Financial assets
	Trade receivables	Structured bank deposits	Unlisted equity investments	Bills receivable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	–	100,000	221	2,823,950	2,924,171
Acquisitions	558,299	833,000	–	–	1,391,299
Disposals	–	–	–	(1,474,588)	(1,474,588)
(Losses)/gains recognised in profit or loss	(7,244)	14,151	–	–	6,907
Gains recognised in other comprehensive income	–	–	–	16,429	16,429
At 31 December 2018	551,055	947,151	221	1,365,791	2,864,218
At 1 January 2019	551,055	947,151	221	1,365,791	2,864,218
Acquisitions	–	165,000	–	1,400,571	1,565,571
Disposals	(464,052)	(975,245)	–	–	(1,439,297)
(Losses)/gains recognised in profit or loss	(664)	18,575	–	–	17,911
Gains recognised in other comprehensive income	–	–	–	8,959	8,959
At 31 December 2019	86,339	155,481	221	2,775,321	3,017,362

	Financial assets at FVPL		Financial assets at FVOCI		Financial assets
	Trade receivables	Structured bank deposits	Unlisted equity investments	Bills receivable	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2020	86,339	155,481	221	2,775,321	3,017,362
Acquisitions	–	308,000	–	553,151	941,151
Disposals	(75,125)	233,861	(221)	–	(309,207)
(Losses)/gains recognised in profit or loss	(920)	10,425	–	–	9,505
Losses recognised in other comprehensive income	–	–	–	(5,749)	(5,749)
At 31 December 2020	10,294	320,045	–	3,322,723	3,653,062

(ii) Valuation inputs and relationships to fair value

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

(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 2018, 2019 and 2020 would have increased/decreased by approximately RMB812 thousands, RMB1,311 thousands and RMB5,132 thousands respectively as a result of the changes in fair value of the financial assets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

(b) Expected credit loss for receivables

The impairment provision for trade receivables, bills receivables and other receivables are based on assumptions about the expected loss rates. The Target Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Target 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 2.9 and Note 3.1(b). 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 statements.

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

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

(d) Impairments for non-financial assets

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

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

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Target 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 Target 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 Target Group's productivity and quality initiatives, as well as parts and labour costs. As at 31 December 2018, 2019 and 2020, this particular provision had a carrying amount of RMB162,827 thousands, RMB313,621 thousands and RMB950,566 thousands respectively.

(g) Current and deferred income taxes

The Target 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 Target 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.

5 OPERATING SEGMENT INFORMATION

The Target Group is organised in one business division only. The Target Group's chief operating decision maker (the "CODM"), being the Target 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 Target 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 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 Target Group's accounting policies described in Note 2.4. 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 receivables and bills receivable of each segment are reported to the CODM for the purposes of resources allocation and performance assessment. Hence, total segment assets represent the trade and bills receivables of the Target Group while the unallocated assets represent the assets of the Target 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.

(a) Segment information

	For the year ended 31 December 2018				
	PRC	**USA**	**Europe**	**Other countries**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue					
Total segment revenue	11,810,646	1,866,388	459,020	536,670	14,672,724
Inter segment revenue	(6,595,942)	(58,697)	–	–	(6,654,639)
Revenue from external customers	5,214,704	1,807,691	459,020	536,670	8,018,085
Timing of revenue recognition					
At a point in time	5,214,704	1,807,691	459,020	536,670	8,018,085
Segment results	795,939	318,768	78,585	91,608	1,284,900
Unallocated other income					1,768
Other gains – net					204,669
Impairment losses on financial assets					(43,620)
Finance costs – net					(529,738)
Share of results of joint ventures					–
Corporation and other unallocated expenses					(795,032)
Profit before income tax					122,947
Other segment information					
Reversal of write-down of inventories	(1,566)	–	–	–	(1,566)
Reversal of impairment losses on financial assets, net	43,757	(126)	(2)	(9)	43,620
Impairment losses on prepayments	(9,163)	–	–	–	(9,163)
Depreciation and amortisation	426,896	17,195	2,436	616	447,143
Capital expenditure	662,439	24,345	1,985	249	689,018
Segment assets	5,632,506	35,773	511	8,693	5,677,483
Corporate and other unallocated assets					20,821,648
Total assets					26,499,131

	For the year ended 31 December 2019				
	PRC	**USA**	**Europe**	**Other countries**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue					
Total segment revenue	13,860,078	2,108,333	616,165	318,496	16,903,072
Inter segment revenue	(7,316,053)	(64,338)	(94,940)	(7,438)	(7,482,769)
Revenue from external customers	6,544,025	2,043,995	521,225	311,058	9,420,303
Timing of revenue recognition					
At a point in time	6,544,025	2,043,995	521,225	311,058	9,420,303
Segment results	1,040,661	375,000	88,575	53,959	1,558,195
Unallocated other income					8,370
Other gains – net					56,623
Impairment losses on financial assets					(8,144)
Finance costs – net					(439,901)
Share of results of a joint venture					(1,469)
Corporation and other unallocated expenses					(828,594)
Profit before income tax					345,080
Other segment information					
Reversal of write-down of inventories	(2,493)	–	–	–	(2,493)
Impairment losses on financial assets, net	8,029	89	19	7	8,144
Impairment losses on property, plant and equipment	8,003	–	–	–	8,003
Impairment losses on prepayments	11,832	–	–	–	11,832
Depreciation and amortisation	437,844	15,458	2,400	505	456,207
Capital expenditure	521,923	1,551	468	42,804	566,746
Segment assets	4,940,322	48,317	2,211	3,548	4,994,398
Corporate and other unallocated assets					19,750,267
Total assets					24,744,665

	For the year ended 31 December 2020				
	PRC	**USA**	**Europe**	**Other countries**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue					
Total segment revenue	15,415,050	1,696,999	364,982	732,688	18,209,719
Inter segment revenue	(4,701,539)	(91,481)	(114,225)	(121,390)	(5,028,635)
Revenue from external customers	10,713,511	1,605,518	250,757	611,298	13,181,084
Timing of revenue recognition					
At a point in time	10,713,511	1,605,518	250,757	611,298	13,181,084
Segment results	2,396,435	362,123	53,284	139,532	2,951,374
Unallocated other income					18,858
Other losses – net					(167,437)
Impairment losses on financial assets					(59,050)
Finance costs – net					(229,317)
Share of results of joint ventures					–
Corporation and other unallocated expenses					(1,486,237)
Profit before income tax					1,028,191
Other segment information					
Write-down of inventories	38,710	–	–	–	38,710
Impairment losses on financial assets, net	58,768	(35)	(9)	326	59,050
Impairment losses on property, plant and equipment	65,074	–	–	–	65,074
Impairment losses on prepayments	20,937	–	–	–	20,937
Depreciation and amortisation	395,077	14,645	2,178	452	412,352
Capital expenditure	338,870	5,811	5,962	34,224	378,867
Segment assets	5,081,619	16,899	11,798	1,664	5,711,980
Corporate and other unallocated assets					12,866,252
Total assets					18,578,232

(b) Other geographical information

Non-current assets by the locations of the assets and excludes financial assets at FVOCI and deferred income tax assets are detailed below:

	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
PRC	4,050,685	4,209,254	4,067,182
USA	139,754	154,472	159,088
Europe	6,390	7,558	3,306
Other countries	42,148	26,589	1,597
	4,238,977	4,397,873	4,231,173

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

	Year ended 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Wind gear transmission equipment	11,651,603	8,158,483	6,896,966
Industrial gear transmission equipment	1,526,091	1,261,820	1,086,408
Other products and services	3,390	–	34,711
	13,181,084	9,420,303	8,018,085

(d) Information about major customers

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

	Year ended 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Customer A *(Note (i))*	2,363,793	2,980,529	3,001,454
Customer B *(Note (ii))*	1,562,929	1,224,934	1,051,823

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**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Interest income from financial assets at FVPL	8,201	930	–
Government grants *(Note)*			
– Deferred income recognised *(Note 31)*	19,505	17,124	19,248
– Other government subsidies	159,879	46,917	16,187
Sale of scraps and materials	69,847	30,982	44,876
Gross fixed rental income	5,665	4,477	2,038
Others	9,942	8,734	(271)
	273,039	107,695	82,078

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 2.26.

7 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Losses on disposal of property, plant and equipment, net	(5,454)	(25,658)	(1,360)
Gains on disposal of a subsidiary	–	–	69,362
Foreign exchange (losses)/gains, net	(106,414)	72,373	128,221
Net fair value gains on financial assets at FVPL *(Note 25(ii))*	9,505	17,911	6,907
Impairment losses on property, plant and equipment	(65,074)	(8,003)	–
Gain on disposal of joint venture	–	1,469	–
Others	–	–	1,539
	(167,437)	58,092	204,669

8 EXPENSES BY NATURE

	Year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Cost of inventories sold	8,732,737	6,275,858	5,718,862
Employee benefit expenses *(Note 9)*	1,854,254	1,291,040	797,913
Depreciation of property, plant and equipment	396,715	419,579	409,361
Depreciation of right-of-use assets	15,637	13,795	12,445
Amortisation of intangible assets	–	14,825	15,965
Auditors' remuneration	6,192	7,019	6,289
Write-down/(reversal of write-down) of inventories *(Note 22)*	38,710	(2,493)	(1,566)
Other expenses	925,883	771,873	649,258
Total cost of sales, selling and distribution expenses, administrative expenses, research and development costs and share-based payment expenses	11,970,128	8,791,496	7,608,527

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Wages and salaries	959,927	922,763	598,935
Pension scheme contributions	76,389	97,757	157,419
Share-based payment expenses *(Note (a))*	547,674	–	–
Other benefits	270,264	270,520	41,559
Total employee benefit expenses	1,854,254	1,291,040	797,913

(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 Target Group and on behalf of certain designated employees of the Target Group, entered into the capital increase agreement with Nanjing Gear Enterprise Management Co., Ltd. ("Nanjing Gear"), the parent company of the Target Group, and Target Company, 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 the Target Company in return for 6.98% equity interest in Target Company.

The Capital Increase was completed on 26 December 2020. The fair value of 100% equity interest of Target Company 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 Target Company to an independent third party on 30 March 2021. The difference between the fair value of the 6.98% equity interest in Target Company and the Capital Increase amount, being RMB547,674 thousands, is recognised in profit or loss as share-based payment expenses.

10 FINANCE INCOME AND COSTS

	Year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Finance income			
Bank interest income	56,685	72,549	111,306
Finance costs			
Interest expenses	(286,002)	(510,440)	(628,231)
Net foreign exchange losses	–	(2,010)	(12,813)
	(286,002)	(512,450)	(641,044)
Finance costs – net	(229,317)	(439,901)	(529,738)

11 INCOME TAX EXPENSES

	Year ended 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Current income tax – charge for the year			
– PRC	295,389	164,538	48,710
– Hong Kong	18,425	23,454	16,051
– Others	206	669	591
Current income tax – (over)/under provision in respect of prior years	(3,406)	801	(39,279)
	310,614	189,462	26,073
Deferred tax	(84,898)	(51,933)	7,943
Income tax expenses	225,716	137,529	34,016

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

	Year ended 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax	1,028,191	345,080	122,947
Tax calculated at statutory tax rate of 25%	257,048	86,270	30,737
Tax effect of:			
– Lower tax rate enacted by local authority or different tax rates of subsidiaries in other jurisdictions	(136,924)	(13,778)	(53,042)
– Share of results of joint ventures accounted for using the equity method	–	367	–
– Non-deductible expenses	140,759	10,576	10,992
– Utilisation of previously unrecognised tax losses	(94,749)	(6,539)	(8,976)
– Tax losses for which no deferred income tax assets was recognised	38,799	(83,767)	85,198
– Temporary differences for which no deferred income tax assets was recognised	58,207	2,094	32,362
– Additional deductions on research and development expenses	(34,018)	(26,029)	(23,976)
– (Over)/under provision in respect of prior years	(3,406)	801	(39,279)
	225,716	137,529	34,016

(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 years ended 31 December 2018, 2019 and 2020.

The following subsidiaries are approved as high technology development enterprises and thus entitled to a preferential tax rate of 15% up to 31 December 2022:

Name of company	Year ended during which approval was obtained	Year ending during which approval will expire
Target Company	31 December 2020	31 December 2022
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	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%; 2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the years ended 31 December 2018, 2019 and 2020.

(c) Other corporate income tax

Other corporate income tax has been provided at the applicable rate of 8.5% to 18.5% on the estimated assessable profits arising from the jurisdictions at which the entities are operated for the years ended 31 December 2018, 2019 and 2020.

12 DIVIDENDS

	Year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Dividends recognised as distribution during the year	3,850,000	–	700,000

13 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings	Leasehold improvements	Machinery and equipment	Furniture and fixtures	Transportation equipment	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018							
Cost	1,340,503	14,445	4,242,030	224,957	218,563	784,530	6,825,028
Accumulated depreciation	(238,533)	(1,422)	(2,722,648)	(153,740)	(167,035)	–	(3,283,378)
Impairment losses	–	–	–	–	–	(12,174)	(12,174)
Net book amount	1,101,970	13,023	1,519,382	71,217	51,528	772,356	3,529,476
For the year ended 31 December 2018							
Opening net book amount	1,101,970	13,023	1,519,382	71,217	51,528	772,356	3,529,476
Transferred from construction in progress	–	–	322,515	19,074	50,970	(392,559)	–
Other additions	–	–	14,130	8,974	–	481,904	505,008
Depreciation	(42,159)	(4,465)	(346,148)	(13,262)	(12,699)	–	(418,733)
Disposals	(76,734)	–	(21,488)	(38)	(614)	–	(98,874)
Currency translation differences	–	–	–	354	(7)	–	347
Closing net book amount	983,077	8,558	1,488,391	86,319	89,178	861,701	3,517,224

	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 31 December 2018							
Cost	1,263,769	14,445	4,557,187	253,321	268,912	873,875	7,231,509
Accumulated depreciation	(280,692)	(5,887)	(3,068,796)	(167,002)	(179,734)	–	(3,702,111)
Impairment losses	–	–	–	–	–	(12,174)	(12,174)
Net book amount	983,077	8,558	1,488,391	86,319	89,178	861,701	3,517,224
At 1 January 2019							
Cost	1,263,769	14,445	4,557,187	253,321	268,912	873,875	7,231,509
Accumulated depreciation	(280,692)	(5,887)	(3,068,796)	(167,002)	(179,734)	–	(3,702,111)
Impairment losses	–	–	–	–	–	(12,174)	(12,174)
Net book amount	983,077	8,558	1,488,391	86,319	89,178	861,701	3,517,224
For the year ended 31 December 2019							
Opening net book amount	983,077	8,558	1,488,391	86,319	89,178	861,701	3,517,224
Transferred from construction in progress	152,644	6,820	542,589	15,654	35,906	(753,613)	–
Other additions	275	4,222	1,322	839	83	477,617	484,358
Acquisition of a subsidiary *(Note 39)*	80,966	–	88,885	69	599	5,698	176,217
Depreciation	(43,525)	(5,568)	(348,556)	(13,738)	(16,200)	–	(427,587)
Disposals	(7,379)	–	(48,399)	(3,135)	(6,773)	–	(65,686)
Impairment losses provided for the year *(Note 7)*	–	–	–	–	–	(8,003)	(8,003)
Currency translation differences	1,879	–	371	463	8	(3)	2,718
Closing net book amount	1,167,937	14,032	1,724,603	86,471	102,801	583,397	3,679,241
At 31 December 2019							
Cost	1,527,120	25,487	5,105,408	249,728	284,576	603,574	7,795,893
Accumulated depreciation	(359,183)	(11,455)	(3,380,805)	(163,257)	(181,775)	–	(4,096,475)
Impairment losses	–	–	–	–	–	(20,177)	(20,177)
Net book amount	1,167,937	14,032	1,724,603	86,471	102,801	583,397	3,679,241

	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	1,527,120	25,487	5,105,408	249,728	284,576	603,574	7,795,893
Accumulated depreciation	(359,183)	(11,455)	(3,380,805)	(163,257)	(181,755)	–	(4,096,475)
Impairment losses	–	–	–	–	–	(20,177)	(20,177)
Net book amount	1,167,937	14,032	1,720,603	86,471	102,801	583,337	3,679,241
For the year ended 31 December 2020							
Opening net book amount	1,167,937	14,032	1,728,603	86,471	102,801	583,397	3,679,241
Transferred from construction in progress	19,986	–	336,424	21,047	20,919	(398,376)	–
Other additions	2,755	8,360	32,405	1,219	621	324,394	369,754
Depreciation	(48,928)	(6,579)	(300,066)	(20,958)	(20,184)	–	(396,715)
Disposals	(3,853)	(3,352)	(25,015)	(3,191)	(3,941)	–	(39,352)
Impairment losses provided for the year *(Note 7)*	–	–	(8,603)	(312)	–	(56,159)	(65,074)
Currency translation differences	11,607	–	(831)	(20,789)	(13)	–	(10,026)
Closing net book amount	1,149,504	12,461	1,758,917	63,487	100,203	453,256	3,537,828
At 31 December 2020							
Cost	1,549,726	30,495	5,292,457	225,626	294,768	529,592	7,922,664
Accumulated depreciation	(400,222)	(18,034)	(3,524,937)	(161,827)	(194,565)	–	(4,299,585)
Impairment losses	–	–	(8,603)	(312)	–	(76,336)	(85,251)
Net book amount	1,149,504	12,461	1,758,917	63,487	100,203	453,256	3,537,828

The Target Group is in the process of obtaining property certificates for the buildings above with a carrying amount of RMB740,308 thousands, RMB603,365 thousands and RMB537,980 thousands as at 31 December 2018, 2019 and 2020, respectively.

The freehold lands are located in the USA.

14 RIGHT-OF-USE ASSETS

	Land use rights *RMB'000*
At 1 January 2018	
Cost	515,757
Accumulated amortisation	(53,255)
Net book amount	462,502
For the year ended 31 December 2018	
Opening net book amount	462,502
Additions	184,010
Disposals	(66,992)
Charge for the year	(12,445)
Closing net book amount	567,075
At 31 December 2018	
Cost	632,775
Accumulated amortisation	(65,700)
Net book amount	567,075
At 1 January 2019	
Cost	632,775
Accumulated amortisation	(65,700)
Net book amount	567,075
For the year ended 31 December 2019	
Opening net book amount	567,075
Transferred from deposits for land leases *(Note 21)*	40,910
Additions	41,479
Acquisition of a subsidiary *(Note 39)*	45,460
Charge for the year	(13,795)
Closing net book amount	681,129

	Land use rights
	RMB'000
At 31 December 2019	
Cost	765,892
Accumulated amortisation	(84,763)
Net book amount	681,129
At 1 January 2020	
Cost	765,892
Accumulated amortisation	(84,763)
Net book amount	681,129
For the year ended 31 December 2020	
Opening net book amount	681,129
Transferred from deposits for land leases *(Note 21)*	5,471
Additions	3,642
Disposals	(4,610)
Charge for the year	(15,637)
Exchange differences	(878)
Closing net book amount	669,117
At 31 December 2020	
Cost	767,798
Accumulated amortisation	(98,681)
Net book amount	669,117

The land use rights are located in the PRC. Lump sum payments were made up front to acquire these property interests. At 31 December 2018, 2019 and 2020, the Target Group is in the process of obtaining certain land use rights certificates with a carrying amount of RMB286,355 thousands, RMB234,728 thousands and RMB141,360 thousands respectively.

15 GOODWILL

	RMB'000
Net carrying amount at 1 January 2018, 31 December 2018 and 1 January 2019	–
Addition from acquisition of a subsidiary *(Note 39)*	26,142
Net carrying amount at 31 December 2019, 1 January 2020 and 31 December 2020	26,142
At 31 December 2019, 1 January 2020 and 31 December 2020	
Cost	26,142
Accumulated impairment	–
	26,142

Impairment testing of goodwill

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

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Wind Gear Transmission Equipment CGU	26,142	26,142	–

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 2019 and 2020. 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 2019 and 2020 was impaired.

16 INTANGIBLE ASSETS

	Research and development costs
	RMB'000
At 1 January 2018	
Cost	650,522
Accumulated amortisation	(619,732)
Impairment	(1,539)
Net book amount	29,251
For the year ended 31 December 2018	
Net book amount at 1 January 2018	29,251
Amortisation	(15,965)
Impairment reversed	1,539
Net book amount at 31 December 2018	14,825
At 31 December 2018	
Cost	650,522
Accumulated amortisation	(635,697)
Net book amount	14,825
For the year ended 31 December 2019	
Net book amount at 1 January 2019	14,825
Amortisation	(14,825)
Net book amount at 31 December 2019, 1 January 2020 and 31 December 2020	–
At 31 December 2019, 1 January 2020 and 31 December 2020	
Cost	650,522
Accumulated amortisation	(650,522)
Net book amount	–

17 INVESTMENTS IN A JOINT VENTURE ACCOUNTED FOR USING THE EQUITY METHOD

	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January	–	85,249	–
Additions	–	–	85,249
Share of result for the year	–	(1,469)	–
Impairment losses provided for during the year	–	–	–
Disposal	–	(83,780)	–
As at 31 December	–	–	85,249

Note: 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 RMB85,249 thousands, and resulted in a gain of RMB1,469 thousands.

Principal activities of a joint venture as at 31 December 2018, 2019 and 2020 are as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest 2020	2019	2018	Principal activities	Measurement method
Jiangsu An Rhonda Health Industry Development Co., Ltd	PRC	–	–	30	Business services	Equity

18 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Target Group holds the following financial instruments:

	Note	As at 31 December 2020	2019	2018
		RMB'000	*RMB'000*	*RMB'000*
Financial assets				
Financial assets at amortised cost				
– Trade receivables	*23*	2,389,257	2,219,077	4,311,692
– Other receivables	*23*	743,385	7,105,484	7,561,761
– Other financial assets at amortised cost	*19*	–	33,675	–
– Pledged bank deposits	*26*	1,640,286	2,642,560	2,918,913
– Cash and cash equivalents	*26*	1,788,260	2,463,284	1,978,403
Financial assets at FVOCI	*20*	3,471,226	2,775,542	1,366,012
Financial assets at FVPL	*25*	330,339	241,820	1,498,206
		10,362,753	17,481,442	19,634,987
Financial liabilities				
Liabilities at amortised cost:				
– Trade and other payables	*29*	7,353,341	9,077,124	8,716,313
– Borrowings and corporate bonds	*30*	2,178,970	5,237,448	7,372,957
		9,532,311	14,314,572	16,089,270

The Target 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.

19 OTHER FINANCIAL ASSETS AT AMORTISED COST

	As at 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Corporate bonds *(Note)*	–	33,675	–
	–	33,675	–

Note: In 2019, the Target Group acquired a corporate bond from an independent third party with the amount of approximately RMB33,675 thousands.

All of the corporate bonds were settled during the year ended 31 December 2020.

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Classification of financial assets at FVOCI

Financial assets measured at FVOCI include the following:

- Equity securities which are not held for trading, and which the Target Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Target 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 Target Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

	As at 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Non-current assets			
Listed equity investment *(Note (ii))*	148,503	–	–
Unlisted equity investments	–	221	221
	148,503	221	221
Current asset			
Debt investments *(Note (iii))*	3,322,723	2,775,321	1,365,791
	3,471,226	2,775,542	1,366,012

(ii) Listed equity investment

	As at 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Riyue Heavy Industry Co., Ltd.	148,503	–	–

The balance as at 31 December 2020 represent the fair value of equity shares of Shanghai listed securities based on the closing price of the securities quoted on the stock exchanges of Shanghai on that date. The directors of the Target Company consider that the closing price of the securities is the fair value of the investment.

(iii) Debt investments

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

For the years ended 31 December 2018, 2019 and 2020, fair value loss of RMB16,429 thousands, RMB8,959 thousands and RMB5,749 thousands and for bills receivables measured at FVOCI are recognised in OCI.

(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	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	232,768	195,385	27,489
Carrying amount of associated liabilities	(232,768)	(195,385)	(27,489)

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

During the year ended 31 December 2018, 2019 and 2020, the following gains/(losses) were recognised in profit or loss and other comprehensive income:

	Year ended at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Gains/(losses) recognised in other comprehensive income	54,252	(8,959)	(16,429)
Dividends from equity investments held at FVOCI recognised in profit or loss in other income	–	–	–

(vi) Current assets pledged as security

Refer to Note 37 for information on current assets pledged as security by the Target Group.

(vii) Fair value, impairment and risk exposure

Information about the Target 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 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 2018, 2019 and 2020, deposits for land lease amounted to RMBnil, RMB40,910 thousands and RMB5,471 thousands has been transferred to right-of-use assets respectively.

22 INVENTORIES

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Raw materials	549,867	421,555	399,389
Work in progress	1,793,516	1,099,232	935,732
Finished goods	1,235,282	912,848	854,392
	3,578,665	2,433,635	2,189,513

During the years ended 31 December 2018, 2019 and 2020, the cost of inventories recognised as expense amounted to RMB6,534,404 thousands, RMB7,617,839 thousands and RMB10,080,613 thousands which was included in "cost of sales" respectively.

During the years ended 31 December 2018, 2019 and 2020, reversal of write-down of inventories to net realisable value amounted to RMB1,566 thousands and RMB2,493 thousands respectively were recognised and included in "cost of sales" in profit or loss.

During the year ended 31 December 2020, write-down of inventories amounted to RMB38,710 thousands were recognised and included in "cost of sales" in profit or loss.

23 TRADE AND OTHER RECEIVABLES

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade receivables			
– Amounts due from third parties	2,634,256	2,747,739	4,843,893
– Amount due from a fellow subsidiary	321,760	–	–
	2,956,016	2,747,739	4,843,893
Less: Loss allowances	(566,759)	(528,662)	(532,201)
	2,389,257	2,219,077	4,311,692
Other receivables			
– Amounts due from third parties	81,390	229,602	393,486
– Amounts due from fellow subsidiaries	668,340	6,882,903	7,182,692
	749,730	7,112,505	7,576,178

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Less: Loss allowances	(6,345)	(7,021)	(14,417)
	743,385	7,105,484	7,561,761
Value-added tax recoverable	80,122	112,876	13,138
	823,507	7,218,360	7,574,899
	3,212,764	9,437,437	11,886,591

The Target Group generally allows a credit period of 180 days (2019 and 2018: 180 days) to its trade customers. The Target 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 Target 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 Target Group's fellow subsidiaries are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Target Group.

(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 Target Group applies the simplified approach under IFRS 9 to measuring expected credit losses 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 Target Group's exposure to financial risk factors of trade and other receivables are disclosed in Note 3.1.

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

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Less than 1 year	2,309,861	1,991,074	3,858,642
1 to 2 years	51,833	137,574	305,324
Over 2 years	27,563	90,429	147,696
	2,389,257	2,219,077	4,311,692

24 PREPAYMENTS

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Prepayments			
– Amounts due from third parties	125,013	168,635	258,730
Less: Impairment provision	(46,584)	(25,647)	(13,815)
	78,429	142,988	244,915

The movements in loss allowances of prepayments are as follows:

	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
As at 1 January	25,647	13,815	22,978
Impairment losses recognised/(reversal of impairment losses) during the year, net	20,937	11,832	(9,163)
As at 31 December	46,584	25,647	13,815

25 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

The Target Group classifies debt investments that do not qualify for measurement at either amortised cost (Note 19) or FVOCI (Note 20) as FVPL

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Current assets			
Structured bank deposits *(Note (a))*	320,045	155,481	947,151
Trade receivables measured at FVPL *(Note (b))*	10,294	86,339	551,055
	330,339	241,820	1,498,206

Notes:

(a) Structured bank deposits

As at 31 December 2018, 2019 and 2020, structured bank deposits of RMB947,151 thousands, RMB155,481 thousands and RMB320,045 thousands represented financial instruments placed by the Target Group to one, two and three banks in the PRC for a term within one year respectively. The contract guarantees principal and proceeds are related to the performance of exchange rate, interest rate or stock index on the market. All of the structured bank deposits amounted to RMB320,045 thousands were redeemed subsequent to the end of the reporting period.

(b) 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 Target 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 2018, 2019 and 2020, such trade receivables held solely for selling purpose amounting to RMB551,055 thousands, RMB86,339 thousands and RMB10,294 thousands were classified as financial assets at FVPL respectively. For the years ended 31 December 2018, 2019 and 2020, fair value change of RMB7,244 thousands, RMB664 thousands and RMB920 thousands for trade receivables measured at FVPL are recognised in "Other (losses)/gains – net" respectively.

(ii) Amounts recognised in profit or loss

For the years ended 31 December 2018, 2019 and 2020, the following gains were recognised in profit or loss:

	Year ended 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Fair value gains on debt investments at FVPL recognised in other gains – net *(Note 7)*	9,505	17,911	6,907

(iii) Risk exposure and fair value measurements

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

26 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Cash at banks and on hand	3,428,546	5,105,844	4,897,316
Less: Pledged bank deposits	(1,640,286)	(2,642,560)	(2,918,913)
Cash and cash equivalents	1,788,260	2,463,284	1,978,403

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 Target 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.

27 SHARE CAPITAL

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Paid-in capital			
Carrying amount at beginning of the year	2,000,000	2,000,000	2,000,000
Capital injection	150,000	–	–
Carrying amount at end of the year	2,150,000	2,000,000	2,000,000

28 RESERVES

	Deemed capital contribution reserve	Statutory surplus reserve	Capital reserve	FVOCI reserve	Exchange reserve	Total in other reserves	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2018	1,061,956	834,868	83,488	–	(5,039)	1,975,273	5,642,905	7,618,178
Profit for the year	–	–	–	–	–	–	99,688	99,688
Other comprehensive loss for the year								
– Change in fair value of financial assets at FVOCI, net of tax	–	–	–	(15,800)	–	(15,800)	–	(15,800)
– Currency translation differences	–	–	–	–	(5,394)	(5,394)	–	(5,394)
Total comprehensive income for the year	–	–	–	(15,800)	(5,394)	(21,194)	99,688	78,494
Dividends recognised as distribution during the year *(Note 12)*	–	–	–	–	–	–	(700,000)	(700,000)
Acquisition of subsidiaries	411,843	–	–	–	–	411,843	–	411,843
Appropriation to statutory reserve	–	41,900	–	–	–	41,900	(41,900)	–
Balance at 31 December 2018	1,473,799	876,768	83,488	(15,800)	(10,433)	2,407,822	5,000,693	7,408,515
Balance at 1 January 2019	1,473,799	876,768	83,488	(15,800)	(10,433)	2,407,822	5,000,693	7,408,515
Profit for the year	–	–	–	–	–	–	211,501	211,501
Other comprehensive loss for the year								
– Change in fair value of financial assets at FVOCI, net of tax	–	–	–	(9,326)	–	(9,326)	–	(9,326)
– Currency translation differences	–	–	–	–	(7,036)	(7,036)	–	(7,036)
Total comprehensive income for the year	–	–	–	(9,326)	(7,036)	(16,362)	211,501	195,139
Acquisition of subsidiaries	(734,569)	–	–	–	–	(734,569)	–	(734,569)
Appropriation to statutory reserve	–	4,105	–	–	–	4,105	(4,105)	–
Balance at 31 December 2019	739,230	880,873	83,488	(25,126)	(17,469)	1,660,996	5,208,089	6,869,085

	Deemed capital contribution reserve *RMB'000*	Statutory surplus reserve *RMB'000*	Capital reserve *RMB'000*	FVOCI reserve *RMB'000*	Share-based payment reserve *RMB'000*	Exchange reserve *RMB'000*	Total in other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*
Balance at 1 January 2020	739,230	880,873	83,488	(25,126)	–	(17,469)	1,660,996	5,208,089	6,869,085
Profit for the year	–	–	–	–	–	–	–	796,447	796,447
Other comprehensive income/(loss) for the year:									
– Change in fair value of financial assets at FVOCI, net of tax	–	–	–	48,874	–	–	48,874	–	48,874
– Currency translation differences	–	–	–	–	–	(21,206)	(21,206)	–	(21,206)
Total comprehensive income for the year	–	–	–	48,874	–	(21,206)	27,668	796,447	824,115
Dividends recognised as distribution *(Note 12)*	–	–	–	–	–	–	–	(3,850,000)	(3,850,000)
Transactions with non-controlling interests	(7,762)	–	–	–	–	–	(7,762)	–	(7,762)
Business combination under common control	(51,935)	(316,561)	(83,488)	–	–	–	(451,982)	(836,414)	(1,288,396)
Share-based payment expenses *(Note 9(a))*	–	–	–	–	547,674	–	547,674	–	547,674
Appropriation to statutory reserve	–	51,054	–	–	–	–	51,054	(51,054)	–
Balance at 31 December 2020	679,535	615,366	–	23,748	547,674	(38,675)	1,827,648	1,267,068	3,094,716

The amounts of the Target 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 II-7 to II-8 of the Historical Financial Information.

(a) Deemed capital contribution reserve

The deemed capital contribution reserve arose from a deemed capital contribution from shareholders in 2006.

(b) 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.

(c) Capital reserve

The capital reserve represents the difference between the consideration given and the decrease in net assets of subsidiaries attributable to non-controlling interests upon acquisition of additional interests in subsidiaries.

(d) FVOCI reserve

The Target Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in Note 2.9. These changes are accumulated in the FVOCI reserve within equity. The Target Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

The Target Group also has certain debt investments measured at FVOCI, as explained in 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.

(e) Exchange reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 2.5 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

29 TRADE, BILLS AND OTHER PAYABLES

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Trade payables			
– Amounts due to third parties	2,861,619	1,965,126	1,441,160
Bills payable	3,229,373	3,884,766	4,525,783
	6,090,992	5,849,892	5,966,943
Other payables			
– Accruals	65,632	139,333	257,418
– Other tax payables	23,258	60,051	16,421
– Purchase of property, plant and equipment	83,384	158,607	260,347
– Payroll and welfare payables	181,987	148,031	130,679
– Amounts due to third parties	336,169	443,108	288,146
– Amounts due to fellow subsidiaries	842,796	2,625,517	2,200,877
	1,535,226	3,574,647	3,153,888
	7,629,218	9,424,539	9,120,831

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**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
0 to 30 days	2,874,610	2,084,059	1,081,767
31 to 60 days	538,494	402,349	769,629
61 to 180 days	836,351	917,985	2,020,928
181 to 365 days	1,418,866	2,298,618	2,015,580
Over 365 days	422,671	146,881	79,039
	6,090,992	5,849,892	5,966,943

Trade payables are non-interest-bearing and are normally settled on credit terms of 90 to 180 days (2019 and 2018: 180 days).

All of the amounts due to the Target Group's joint ventures and fellow subsidiaries are unsecured, interest-free and repayable within 180 days (2019 and 2018: 180 days).

30 BORROWINGS AND CORPORATE BONDS

	As at 31 December					
	2020		2019		2018	
	Effective interest rate		Effective interest rate		Effective interest rate	
	%	*RMB'000*	%	*RMB'000*	%	*RMB'000*
Current						
Bank loans – Unsecured	3.45-5.44	1,628,970	4.35-5.92	1,927,500	1.05-5.66	3,190,367
Bank loans – Secured	3.69-5.22	550,000	3.69-5.92	896,500	3.91-5.10	1,270,020
Medium-term notes – Unsecured		–		–	8.5	500,000
		2,178,970		2,824,000		4,960,387
Corporate bonds – Unsecured *(Note)*		–	6.59-6.62	1,914,275		–
		2,178,970		4,738,275		4,960,387
Non-current						
Bank loans – Secured		–	8.00	736	8.00	1,105
Corporate bonds – Unsecured *(Note)*		–	7.62	498,437	6.47-7.50	2,411,465
		–		499,173		2,412,570
		2,178,970		5,237,448		7,372,957

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.

The maturity of borrowings and corporate bonds is as follows:

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Analysed into:			
Bank loans repayable:			
– On demand or within 1 year	2,178,970	2,824,000	4,460,387
– Between 1 and 2 years	–	736	–
– Between 2 and 5 years	–	–	1,105
	2,178,970	2,824,736	4,461,492
Other borrowing repayable:			
– On demand or within 1 year	–	1,914,275	500,000
– Between 1 and 2 years	–	498,437	1,913,317
– Between 2 and 5 years	–	–	498,148
	–	2,412,712	2,911,465
	2,178,970	5,237,448	7,372,957

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

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Fixed-rate borrowings:			
– Within one year	2,178,970	4,648,275	3,484,227
– More than one year	–	499,173	2,412,570
	2,178,970	5,147,448	5,896,797

In addition, the Target Group has no variable-rate borrowings at 31 December 2020 (2019: RMB90,000 thousands; 2018: RMB1,476,160 thousands) which carry interest rates based on the prescribed rate of People's Bank of China or the London Interbank Offered Rate.

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

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Effective interest rates:			
– Fixed-rate borrowings	3.45%-5.44%	3.69%-8.00%	1.05%-8.50%
– Variable-rate borrowings	–	4.57%-4.70%	3.91%-5.22%

As at 31 December 2020 and 2019, all borrowings are denominated in RMB. (2018: the Group's borrowings denominated in currencies other than RMB amounted to USD63,009 thousands (equivalent to RMB423,443 thousands) and EUR34,290 thousands (equivalent to RMB269,084 thousands)).

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in Note 37.

31 DEFERRED INCOME

	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	197,397	71,479	90,727
Government grants received during the year	19,313	143,042	–
Recognised in profit or loss *(Note 6)*	(19,505)	(17,124)	(19,248)
At 31 December	197,205	197,397	71,479
Represented			
– Current portion	19,654	17,124	17,196
– Non-current portion	177,551	180,273	54,283
	197,205	197,397	71,479

As at the end of each of the reporting period, the amount represented the grants received from the PRC government for the Target 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

	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
At 1 January	313,621	162,827	119,971
Additional provisions recognised during the year	922,708	357,646	150,501
Amounts utilised during the year	(285,763)	(206,852)	(107,645)
At 31 December	950,566	313,621	162,827
Represented			
– Current portion	578,086	216,457	90,299
– Non-current portion	372,480	97,164	72,528
	950,566	313,621	162,827

At the end of the reporting period, the amount represents the directors' best estimate of the expected cost that will be required under the Target 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	Impairment of receivables	Write-down of inventories	Provisions	Deferred income	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	11,642	53,017	17,996	22,638	5,809	111,102
Recognised in profit or loss	(7,019)	(1,854)	4,331	(4,768)	622	(8,688)
Recognised in other comprehensive income	–	–	–	–	629	629
At 31 December 2018 and 1 January 2019	4,623	51,163	22,327	17,870	7,060	103,043
Recognised in profit or loss	3,349	(5,407)	23,065	26,662	3,040	50,709
Recognised in other comprehensive income	–	–	–	–	(378)	(378)
At 31 December 2019 and 1 January 2020	7,972	45,756	45,392	44,532	9,722	153,374
Recognised in profit or loss	1,406	(11,092)	93,273	(5,316)	5,380	83,651
Recognised in other comprehensive income	–	–	–	–	1,908	1,908
At 31 December 2020	9,378	34,664	138,665	39,216	17,010	238,933

Deferred income tax liabilities	Change in fair value of identified assets upon acquisition of subsidiaries	Fair value change on financial assets of FVOCI and FVPL	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2018	(13,041)	–	(13,041)
Recognised in profit or loss	745	–	745
At 31 December 2018 and 1 January 2019	(12,296)	–	(12,296)
Recognised in profit or loss	1,224	–	1,224
Acquisition of a subsidiary *(Note 39)*	(13,798)	–	(13,798)
At 31 December 2019 and 1 January 2020	(24,870)	–	(24,870)
Recognised in profit or loss	1,247	–	1,247
Recognised in other comprehensive income	–	(7,275)	(7,275)
At 31 December 2020	(23,623)	(7,275)	(30,898)

Deferred tax assets not recognised

As at 31 December 2020, the Target Group has unused tax losses of RMB929,465 thousands (2019: RMB1,109,521 thousands; 2018: RMB730,118 thousands) available for offset against future profits. No deferred tax asset has been recognised in respect of such loss due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. During the year ended 31 December 2020, the other temporary differences not recognised are RMB854,989 thousands (2019: RMB919,017 thousands; 2018: RMB760,567 thousands).

34 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Profit before income tax			
– From continuing operations	1,028,191	345,080	122,947
Adjustments for:			
– Finance costs	286,002	512,450	641,044
– Finance income	(56,685)	(72,549)	(111,306)
– Interest income from other financial assets at amortised cost	(8,201)	(930)	–
– Share of result of a joint ventures	–	1,469	–
– Losses on disposal of property, plant and equipment	5,454	25,658	1,360
– Gain on disposal of a joint venture	–	(1,469)	–
– Gain on disposal of a subsidiary	–	–	(69,362)
– Net fair value gains on financial assets at FVPL (Note 7)	(9,505)	(17,911)	(6,907)
– Depreciation of property, plant and equipment	396,715	427,587	418,733
– Depreciation of right-of-use assets	15,637	13,795	12,445
– Amortisation of intangible assets	–	14,825	15,965
– Impairment losses of property, plant and equipment	65,074	8,003	–
– Reversal of impairment losses of intangible assets	–	–	(1,539)
– Write-down/(reversal of write-down) of inventories	38,710	(2,493)	(1,566)
– Impairment loss of trade receivable	59,685	15,540	30,750
– (Reversal)/Impairment loss of other receivables	(635)	(7,396)	12,870
– Impairment loss/(reversal of impairment loss) of prepayments	20,937	11,832	(9,163)
– Unrealised exchange gains, net	(17,295)	5,662	(21,211)
– Share-based payment expenses	547,674	–	–
– Release of deferred income	(19,505)	(17,124)	(19,248)
Operating profit before changes in working capital	2,352,253	1,262,029	1,015,812
Changes in working capital:			
– Increase in inventories	(1,183,740)	(200,382)	(177,676)
– (Increase)/decrease in trade and bills receivable	(706,694)	1,122,745	(115,037)
– Decrease/(increase) in other receivables	24,603	74,667	45,993
– Decrease/(increase) in prepayments	49,093	129,668	(2,571)
– Decrease/(increase) in trade and bills payables	241,099	(147,986)	(314,224)
– Increase in contract liabilities	1,659,065	228,376	33,109
– (Decrease)/increase in other payables and accruals	(105,366)	(240,411)	424,696
– Increase in warranty provision	636,945	150,793	42,855
Cash generated from operations	2,967,258	2,379,499	952,957

(a) Net debt reconciliation

	As at 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Cash and cash equivalents	1,788,260	2,463,284	1,978,403
Borrowings – repayable within one year	(2,178,970)	(4,738,275)	(4,960,387)
Borrowings – repayable after one year	–	(499,173)	(2,412,570)
Net debt	(390,710)	(2,774,164)	(5,394,554)
Cash and cash equivalents	1,788,260	2,463,284	1,978,403
Gross debt – fixed interest rates	(2,178,970)	(5,147,448)	(5,896,797)
Gross debt – variable interest rates	–	(90,000)	(1,476,160)
Net debt	(390,710)	(2,774,164)	(5,394,554)

	Other assets	Liabilities from financing activities		
	Cash	Borrowings due within 1 year	Borrowings due after 1 year	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2018	3,845,251	(4,870,608)	(2,740,168)	(3,765,526)
Cash flows	(1,888,058)	(89,779)	327,598	(1,650,239)
Foreign exchange adjustments	21,211	–	–	21,211
At 31 December 2018 and 1 January 2019	1,978,403	(4,960,387)	(2,412,570)	(5,394,554)
Cash flows	490,543	2,137,150	369	2,628,062
Reclassification	–	(1,913,028)	1,913,028	–
Foreign exchange adjustments	(5,662)	(2,010)	–	(7,672)
At 31 December 2019 and 1 January 2020	2,463,284	(4,738,275)	(499,173)	(2,774,164)
Cash flows	(692,320)	2,559,305	499,173	2,366,159
Foreign exchange adjustments	17,295	–	–	17,295
At 31 December 2020	1,788,260	(2,178,970)	–	(390,710)

35 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.

36 CONTINGENT LIABILITIES

(i) Financial guarantees

As at 31 December 2018, 2019 and 2020, the Target Group issued financial guarantees to a bank in respect of bank loans of RMB410,000 thousands, RMB410,000 thousands and RMB410,000 thousands granted to one independent third party respectively. This amount represented the balance that the Target Group could be required to be paid if the guarantees were called upon in its entirety.

(ii) Outstanding litigation

(i) 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 Historical Financial Information, the Claim was still awaiting for trial. The independent lawyers engaged by the Target Group believe that there are solid arguments to rebut the Claim on the merits whilst also see a certain settlement value to this case which would be substantially below 50% of the total Claimed Amount. As at 31 December 2019 and 2020, based on the assessment of the independent lawyers, a provision amounting to RMB8,066 thousands and RMB8,066 thousands was accrued by management respectively.

(ii) Jiangsu Guoyuan Power Equipment Co., Ltd. ("Jiangsu Guoyuan") is the gearing supplier to the Target Company (the "Borrower"). On 15 June 2018, the Borrower obtained a short-term loan with RMB130,000 thousands (the "Loan") from a bank (the "Lender") to settle the procurement payables with Jiangsu Guoyuan. The Loan was in the form of entrusted payment which was released to Jiangsu Guoyuan's designated bank account (mutually controlled by the Borrower and Jiangsu Guoyuan) directly by the Lender on the date of draw-down. However, Jiangsu Guoyuan did not properly use the Loan to settle the payables with the Borrower, but transferred all RMB130,000 thousands out, without notification to or authorisation from the Borrower, on the day upon receipt of the Loan. On 22 June 2018, the Borrower filed a claim against Jiangsu Guoyuan on this embezzlement to Nanjing Intermediate People's Court and RMB130,000 thousands was under frozen as at 31 December 2018. As at 31 December 2018, this case was awaiting trial and based on the opinion of the external legal counsel of the Borrower, it was highly probable that the Borrower to win this lawsuit with RMB130,000 thousands to be fully recovered, as such, the directors believed that there was no loss allowance to be provided nor significant implication on the consolidated financial statements of the Target Group. Up to 31 December 2020, the loan has been recovered.

37 CAPITAL COMMITMENTS

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

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Contracted, but not provided for:			
Plant and machinery	426,519	231,162	237,046

38 ASSETS PLEDGED AS SECURITIES

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

	As at 31 December		
	2020	2019	2018
	RMB'000	*RMB'000*	*RMB'000*
Bills receivable	1,202,626	1,179,231	905,550
Property, plant and equipment	600,754	757,984	245,784
Land use rights	146,068	176,107	50,205
Pledged bank deposits	1,640,286	2,642,560	2,918,913
	3,589,734	4,755,882	4,120,452

39 BUSINESS COMBINATION

(i) Summary of acquisition in 2019

In February 2019, the Target Group acquired 100% equity interest in NGC (Baotou) Transmission Equipment 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

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 Target 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 15 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.

40 DISPOSAL OF A SUBSIDIARY IN 2018

On 28 September 2017, Nanjing High Accurate entered into an agreement with Nanjing Fullshare Dazu Technology Company Limited ("Fullshare Dazu"), a subsidiary of Fullshare Holdings, and a third party Jiangsu Lipu Health Technology Co., Ltd. ("Jiangsu Lipu") to dispose of its 40% equity interest in Jiangsu An Rhonda Health Industry Development Co., Ltd ("An Rhonda") to Fullshare Dazu and 30% equity interest to Jiangsu Lipu at a total cash consideration of RMB177,506 thousands.

In December 2018, Nanjing High Accurate completed the transferring of land use right and buildings and properties to An Rhonda. The disposal of An Rhonda was completed and An Rhonda became a joint venture of the Target Group after the transaction.

The aggregated assets and liabilities at the date of disposal and the resulting gain or loss on disposal recognised were as follows:

	An Rhonda
	RMB'000
Property, plant and equipment	112,096
Land lease prepayments	81,296
Net assets disposed	193,392
Total consideration for the disposal	177,506
Net assets disposed	(193,392)
Interest reclassified as a joint venture	85,248
Gain from disposal of a subsidiary	69,362

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	RMB'000
Total consideration	177,506
Less: Cash consideration receivable	(163,506)
Less: Deposits received in previous period	(14,000)
Less: Cash and cash equivalents in the subsidiary disposed	–
Net cash inflows from the disposal	–

41 TRANSACTION WITH NON-CONTROLLING INTERESTS

Acquisition of interest in a non-wholly-owned subsidiary

On 31 October 2020, the Target Group purchased an additional 14.17% equity interests in Nanjing NingKai by RMB15,600 thousands. At the date of the purchase, the proportionate share of 14.17% interests in Nanjing NingKai by non-controlling interests was RMB7,639 thousands. The effect on the equity attributable to the owners of the Target Company during the year is summarised as follows:

	As at 31 December 2020 *RMB'000*
Decrease in non-controlling interests	(7,639)
Consideration paid to non-controlling interests	15,600
Excess of consideration recognised in the transactions with non-controlling interests reserve within equity	7,961

42 RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Target Group

Other than the emolument paid to the directors of the Target Company, who are also considered as the key management of the Target Group as below, the Target Group did not have any other significant compensation to key management personnel.

	As at 31 December		
	2020	**2019**	**2018**
	RMB'000	*RMB'000*	*RMB'000*
Salaries, allowances and other benefits	16,132	16,132	18,529
Share-based payment expenses	161,564	–	–
Pension scheme contributions	318	318	371
	178,014	16,450	18,900

43 BUSINESS COMBINATION UNDER COMMON CONTROL

As mentioned in Note 2.2.1, the acquisitions of the ten companies and the acquisitions of operating business have been accounted for based on merger accounting. Accordingly, the assets and liabilities of the companies acquired by the Target Group have been accounted for at historical cost and the Historical Financial Information of the Target Group for year prior to the combination have been restated to include the financial position and results of operation of the ten companies on a combined basis. The details of the restated balances are stated as below.

The reconciliation of the effect arising from the common control combination on the consolidated statements of financial position as at 31 December 2018 and 2019 are as follows:

As at 31 December 2018

	The Target Group Excluding the ten companies and businesses merge	The ten companies	Businesses merge	Adjustments	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	2,263,223	1,252,611	1,390	–	3,517,224
Right-of-use assets	272,255	294,820	–	–	567,075
Goodwill	–	–	–	–	–
Intangible assets	14,825	–	–	–	14,825
Investments in joint ventures accounted for using the equity method	–	85,249	–	–	85,249
Financial assets at fair value through other comprehensive income	–	221	–	–	221
Deposits for land leases	46,800	–	–	–	46,800
Deferred tax assets	100,159	–	–	2,884	103,043
	2,697,262	1,632,901	1,390	2,884	4,334,437
Current assets					
Inventories	1,630,053	570,996	–	(11,536)	2,189,513
Trade receivables	412,714	177,318	3,721,660	–	4,311,692
Other receivables	7,364,262	197,577	49,545	–	7,611,384
Amount due from fellow subsidiaries	190,818	314,699	–	(505,517)	–
Other financial assets at amortised cost	–	–	–	–	–
Prepayments	212,962	29,462	2,491	–	244,915
Financial assets at fair value through other comprehensive income	503,592	37,556	824,643	–	1,365,791
Financial assets at fair value through profit or loss	163,518	–	1,334,688	–	1,498,206
Income tax prepaid	–	–	45,877	–	45,877
Pledged bank deposits	928,265	41,242	1,949,406	–	2,918,913
Cash and cash equivalents	1,331,418	262,401	384,584	–	1,978,403
	12,737,602	1,631,251	8,312,894	(517,053)	22,164,694

As at 31 December 2018 (continued)

	The Target Group Excluding the ten companies and businesses merge *RMB'000*	The ten companies *RMB'000*	Businesses merge *RMB'000*	Adjustments *RMB'000*	Consolidated *RMB'000*
Current liabilities					
Trade payables	1,128,289	312,669	202	–	1,441,160
Bills payable	1,251,900	–	3,273,883	–	4,525,783
Other payables	1,470,531	1,550,021	133,336	–	3,153,888
Amounts due to fellow subsidiaries	125,412	380,376	–	(505,788)	–
Borrowings	3,027,087	7,100	1,926,200	–	4,960,387
Corporate bonds	–	–	–	–	–
Contract liabilities	79,542	107,105	111,476	–	298,123
Deferred income	17,196	–	–	–	17,196
Income tax payable	–	–	16,051	–	16,051
Warranty provision	76,317	13,982	–	–	90,299
	7,176,274	2,371,253	5,461,148	(505,788)	14,502,887
Net current assets	5,561,328	(740,002)	2,851,746	(11,265)	7,661,807
Total assets less current liabilities	8,258,590	892,899	2,853,136	(8,381)	11,996,244
Non-current liabilities					
Borrowings	1,105	–	–	–	1,105
Corporate bonds	–	–	2,411,465	–	2,411,465
Deferred income	54,283	–	–	–	54,283
Warranty provision	72,528	–	–	–	72,528
Deferred tax liabilities	78	12,218	–	–	12,296
	127,994	12,218	2,411,465	–	2,551,677
Net assets	8,130,596	880,681	441,671	(8,381)	9,444,567
Capital and reserves					
Share capital	2,000,000	1,242,135	–	(1,242,135)	2,000,000
Reserves	6,130,596	(361,454)	441,671	1,197,702	7,408,515
Equity attributable to owners of the Target Company	8,130,596	880,681	441,671	(44,433)	9,408,515
Non-controlling interests	–	–	–	36,052	36,052
Total equity	8,130,596	880,681	441,671	(8,381)	9,444,567

As at 31 December 2019

	The Target Group Excluding the ten companies and businesses merge	The ten companies	Businesses merge	Adjustments	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Non-current assets					
Property, plant and equipment	2,054,685	1,618,859	5,697	–	3,679,241
Right-of-use assets	308,183	372,946	–	–	681,129
Goodwill	–	26,142	–	–	26,142
Intangible assets	–	–	–	–	–
Investments in joint ventures accounted for using the equity method	–	–	–	–	–
Financial assets at fair value through other comprehensive income	–	221	–	–	221
Deposits for land leases	5,890	5,471	–	–	11,361
Deferred tax assets	124,156	23,421	–	5,797	153,374
	2,492,914	2,047,060	5,697	5,797	4,551,468
Current assets					
Inventories	1,527,131	929,690	–	(23,186)	2,433,635
Trade receivables	461,196	214,964	1,542,917	–	2,219,077
Other receivables	7,040,653	142,288	35,419	–	7,218,360
Amount due from fellow subsidiaries	759,796	467,575	–	(1,227,371)	–
Other financial assets at amortised cost	–	33,675	–	–	33,675
Prepayments	116,402	26,586	–	–	142,988
Financial assets at fair value through other comprehensive income	309,513	129,736	2,336,072	–	2,775,321
Financial assets at fair value through profit or loss	–	–	241,820	–	241,820
Income tax prepaid	–	–	22,477	–	22,477
Pledged bank deposits	469,431	24,080	2,149,049	–	2,642,560
Cash and cash equivalents	1,261,508	499,161	702,615	–	2,463,284
	11,945,630	2,467,755	7,030,369	(1,250,557)	20,193,197

As at 31 December 2019 (continued)

	The Target Group Excluding the ten companies and businesses merge	The ten companies	Businesses merge	Adjustments	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Current liabilities					
Trade payables	1,522,248	427,951	14,927	–	1,965,126
Bills payable	608,936	3,364	3,272,466	–	3,884,766
Other payables	1,258,904	2,184,167	131,576	–	3,574,647
Amounts due to fellow subsidiaries	237,851	989,490	–	(1,227,341)	–
Borrowings	2,149,000	–	675,000	–	2,824,000
Corporate bonds	–	–	1,914,275	–	1,914,275
Contract liabilities	69,494	181,726	275,279	–	526,499
Deferred income	17,124	–	–	–	17,124
Income tax payable	11,264	19,349	88,502	–	119,115
Warranty provision	205,451	11,006	–	–	216,457
	6,080,272	3,817,053	6,372,025	(1,227,341)	15,042,009
Net current assets	5,865,358	(1,349,298)	658,344	(23,216)	5,151,188
Total assets less current liabilities	8,358,272	697,762	664,041	(17,419)	9,702,656
Non-current liabilities					
Borrowings	736	–	–	–	736
Corporate bonds	–	–	498,437	–	498,437
Deferred income	86,588	93,685	–	–	180,273
Warranty provision	97,164	–	–	–	97,164
Deferred tax liabilities	–	11,585	–	13,285	24,870
	184,488	105,270	498,437	13,285	801,480
Net assets	8,173,784	592,492	165,604	(30,704)	8,901,176
Capital and reserves					
Share capital	2,000,000	1,523,029	–	(1,523,029)	2,000,000
Reserves	6,173,784	(1,002,543)	165,604	1,532,240	6,869,085
Equity attributable to owners of the Target Company	8,173,784	520,486	165,604	9,211	8,869,085
Non-controlling interests	–	–	–	32,091	32,091
Total equity	8,173,784	520,486	165,604	41,302	8,901,176

The reconciliation of the effect, arising from the common control combination on the consolidated statements of profit or loss for the year ended 31 December 2018 and 2019 are as follows:

For the year ended 31 December 2018

	The Target Group Excluding the ten companies and businesses merge	The ten companies	Businesses merge	Adjustments	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers	6,399,548	1,681,841	6,576,905	(6,640,209)	8,018,085
Cost of sales	(5,320,753)	(1,564,658)	(6,182,365)	6,534,938	(6,532,838)
Gross profit	1,078,795	117,183	394,540	(105,271)	1,485,247
Selling and distribution expenses	(152,627)	(123,915)	(4,115)	–	(280,657)
Administrative expenses	(152,621)	(138,153)	(185,870)	11,219	(465,425)
Research and development costs	(315,357)	(92,814)	–	78,564	(329,607)
Share-based payment expenses	–	–	–	–	–
Net impairment losses recognised on financial assets	31,795	(9,637)	(65,778)	–	(43,620)
Other income	64,660	66,399	1,352	(50,333)	82,078
Other (losses)/gains – net	101,329	(4,712)	25,877	82,175	204,669
Operating profit	655,974	(185,649)	166,006	16,354	652,685
Finance income	38,372	1,026	71,908	–	111,306
Finance costs	(257,196)	(18,961)	(352,074)	(12,813)	(641,044)
Finance costs – net	(218,824)	(17,935)	(280,166)	(12,813)	(529,738)
Share of results of joint ventures accounted for using the equity method	–	–	–	–	–
Profit before income tax	437,150	(203,584)	(114,160)	3,541	122,947
Income tax expenses	(18,149)	(439)	(16,051)	623	(34,016)
Profit for the year	419,001	(204,023)	(130,211)	4,164	88,931
Profit/(loss) attributable to:					
– Owners of the Target Company	419,001	(204,023)	(130,211)	14,921	99,688
– Non-controlling interests	–	–	–	(10,757)	(10,757)
	419,001	(204,023)	(130,211)	4,164	88,931

For the year ended 31 December 2019

	The Target Group Excluding the ten companies and businesses merge	The ten companies	Businesses merge	Adjustments	Consolidated
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Revenue from contracts with customers	7,319,437	1,737,185	7,863,019	(7,499,338)	9,420,303
Cost of sales	(6,509,497)	(1,528,663)	(6,988,166)	7,410,980	(7,615,346)
Gross profit	809,940	208,522	874,853	(88,358)	1,804,957
Selling and distribution expenses	(134,763)	(150,510)	(78,957)	16,674	(347,556)
Administrative expenses	(168,744)	(178,036)	(118,502)	19,348	(445,934)
Research and development costs	(322,371)	(88,295)	–	28,006	(382,660)
Share-based payment expenses	–	–	–	–	–
Net impairment losses recognised on financial assets	(23,832)	(9,558)	13,413	11,833	(8,144)
Other income	83,048	38,295	9,664	(21,842)	109,164
Other (losses)/gains – net	39,421	(13,280)	30,482	–	56,623
Operating profit	282,699	(192,862)	730,953	34,340	786,450
Finance income	16,032	3,851	52,666	–	72,549
Finance costs	(224,637)	(13,003)	(274,810)	–	(512,450)
Finance costs – net	(208,605)	(9,152)	(222,144)	–	(439,901)
Share of results of joint ventures accounted for using the equity method	–	(1,469)	–	–	(1,469)
Profit before income tax	74,094	(203,483)	508,809	(34,340)	345,080
Income tax expenses	(33,045)	4,048	(111,955)	3,423	(137,529)
Profit for the year	41,049	(199,435)	396,854	(30,917)	207,551
Profit/(loss) attributable to:					
– Owners of the Target Company	41,049	(199,435)	396,854	(26,967)	211,501
– Non-controlling interests	–	–	–	(3,950)	(3,950)
	41,049	(199,435)	396,854	(30,917)	207,551

44 EVENTS AFTER REPORTING PERIOD

Save as disclosed elsewhere in this Historical Financial Information, there was no significant event which happened after the end of the reporting period.

45 SUBSEQUENT FINANCIAL STATEMENTS

No audited consolidated financial statements have been prepared by the Target Group in respect of any period subsequent to 31 December 2020.

Set out below is the management discussion and analysis of Nanjing High Speed for each of the three years ended 31 December 2018, 2019, 2020.

For the year ended 31 December 2018

Business review

Nanjing High Speed and its subsidiaries are principally engaged in research, design, development, manufacturing and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications.

During the year ended 31 December 2018, Nanjing High Speed recorded revenue from contracts with customers of approximately RMB8,018,085,000. The gross profit margin was approximately 18.5%. Profit attributable to owners of Nanjing High Speed was approximately RMB99,688,000.

Financial review

Revenue

During the year ended 31 December 2018, Nanjing High Speed's revenue from contracts with customers was approximately RMB8,018,085,000.

Gross profit margin and gross profit

During the year ended 31 December 2018, Nanjing High Speed's gross profit margin was approximately 18.5%. Gross profit for the year ended 31 December 2018 amounted to approximately RMB1,485,247,000.

Financial resources and liquidity

The equity attributable to owners of Nanjing High Speed for the year ended 31 December 2018 amounted to approximately RMB9,408,515,000. Nanjing High Speed had total assets of approximately RMB26,499,131,000 as at 31 December 2018. Total current assets were approximately RMB22,164,694,000. Total non-current assets were approximately RMB4,334,437,000.

Total liabilities of Nanjing High Speed as at 31 December 2018 were approximately RMB17,054,564,000. Total current liabilities were approximately RMB14,502,887,000. Total non-current liabilities were approximately RMB2,551,677,000.

As at 31 December 2018, the net current asset of Nanjing High Speed was approximately RMB7,661,807,000.

As at 31 December 2018, total cash and cash equivalents amounted to approximately RMB1,978,403,000.

As at 31 December 2018, Nanjing High Speed had total borrowings (including corporate bonds) of approximately RMB7,372,957,000, of which borrowings within one year were RMB4,960,387,000, accounting for approximately 67.3% of the total borrowings. The fixed or floating interest rates of Nanjing High Speed's borrowings as at 31 December 2018 ranged from 1.05% to 8.50% per annum.

Taking into account of the internal financial resources of and the banking facilities available to Nanjing High Speed, and the net current asset of approximately RMB7,661,807,000, as at 31 December 2018, the directors of Nanjing High Speed believe that Nanjing High Speed will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

Nanjing High Speed's gearing ratio (defined as total liabilities as a percentage of total assets) was 64.4% as at 31 December 2018.

Capital structure

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

Nanjing High Speed's cash and cash equivalents were mainly denominated in RMB and USD as at 31 December 2018.

As at 31 December 2018, Nanjing High Speed's borrowings with fixed interest rates was approximately RMB5,896,797,000.

As at 31 December 2018, Nanjing High Speed's borrowings denominated in currencies other than RMB amounted to USD63,009,000 (equivalent to RMB423,443,000) and EUR34,290,000 (equivalent to RMB269,084,000).

During the year ended 31 December 2018, Nanjing High Speed distributed dividend of RMB700,000,000.

Significant investment held

During the year ended 31 December 2018, Nanjing High Speed has not made or held any significant investments.

Significant acquisition and disposal

Nanjing High Speed did not conduct significant acquisition or disposal of subsidiaries and associates during the year ended 31 December 2018.

Contingent liabilities

As at 31 December 2018, Nanjing High Speed issued financial guarantees to a bank in respect of bank loans of RMB410,000,000 granted to an independent third party.

Jiangsu Guoyuan Power Equipment Co., Ltd. ("**Jiangsu Guoyuan**") is the gearing supplier to Nanjing High Speed (the "**Borrower**"). On 15 June 2018, the Borrower obtained a short-term loan of RMB130,000 thousands (the "**Loan**") from a bank (the "**Lender**") to settle the procurement payables with Jiangsu Guoyuan. The Loan was in the form of entrusted payment which was released to Jiangsu Guoyuan's designated bank account (mutually controlled by the Borrower and Jiangsu Guoyuan) directly by the Lender on the date of draw-down. However, Jiangsu Guoyuan did not properly use the Loan to settle the payables with the Borrower, but transferred all RMB130,000 thousands out, without notification to or authorization from the Borrower, on the day upon receipt of the Loan. On 22 June 2018, the Borrower filed a claim against Jiangsu Guoyuan on this embezzlement to Nanjing Intermediate People's Court and RMB130,000 thousands was under frozen as at 31 December 2018. As at 31 December 2018, this case was awaiting trial and based on the opinion of the external legal counsel of the Borrower, it was highly probable that the Borrower to win this lawsuit with RMB130,000 thousands to be fully recovered. As such, the Directors believed that there was no loss allowance to be provided nor significant implication on the consolidated financial statements of the Group.

Commitments

As at 31 December 2018, Nanjing High Speed had capital commitments contracted for but not provided in the financial statements in respect of plant and machinery of approximately RMB237,046,000.

Foreign exchange risk

Nanjing High Speed 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 35% of Nanjing High Speed's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 2% of costs were not denominated in the functional currency. Nanjing High Speed's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Nanjing High Speed currently did not enter into any hedge under Nanjing High Speed's foreign currency risk strategy as Nanjing High Speed considers the risk of movements in exchange rates between the above currencies and RMB to be insignificant.

The carrying amounts of Nanjing High Speed's monetary assets and monetary liabilities denominated in foreign currencies including financial assets at FVOCI, trade and other receivables, cash and cash equivalents and trade and other payables as at 31 December 2018 are as follows:

	RMB'000
Assets	
USD	1,009,104
EUR	237,116
HKD	2,198
Liabilities	
USD	48,909
EUR	1,300
HKD	–

Employees

As at 31 December 2018, Nanjing High Speed employed approximately 5,222 employees in continuing operations. Employee benefit expenses of Nanjing High Speed for the year ended 31 December 2018 approximated to RMB797,913,000. The expenses included wages and salaries, pension scheme contributions, share-based payment expenses and other benefits.

Pledge of assets

As at 31 December 2018, certain assets of Nanjing High Speed and its subsidiaries were pledged to secure certain banking and other facilities granted to them as follows:

	As at 31 December 2018 *RMB'000*
Bills receivable	905,550
Property, plant and equipment	245,784
Land use rights	50,205
Pledged bank deposits	2,918,913
	4,120,452

For the year ended 31 December 2019

Business review

Nanjing High Speed and its subsidiaries are principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications.

During the year ended 31 December 2019, Nanjing High Speed recorded revenue from contracts with customers of approximately RMB9,420,303,000. The gross profit margin was approximately 19.2%. Profit attributable to owners of Nanjing High Speed from continuing operations was approximately RMB211,501,000.

Financial review

Revenue

During the year ended 31 December 2019, Nanjing High Speed's revenue from contracts with customers was approximately RMB9,420,303,000.

Gross profit margin and gross profit

During the year ended 31 December 2019, Nanjing High Speed's gross profit margin was approximately 19.2%. Gross profit for the year ended 31 December 2019 amounted to approximately RMB1,804,957,000.

Financial resources and liquidity

The equity attributable to owners of Nanjing High Speed for the year ended 31 December 2019 amounted to approximately RMB8,869,085,000. Nanjing High Speed had total assets of approximately RMB24,744,665,000 as at 31 December 2019. Total current assets were approximately RMB20,193,197,000. Total non-current assets were approximately RMB4,551,468,000.

Total liabilities of Nanjing High Speed as at 31 December 2019 were approximately RMB15,843,489,000. Total current liabilities were approximately RMB15,042,009,000. Total non-current liabilities were approximately RMB801,480,000.

As at 31 December 2019, the net current assets of Nanjing High Speed were approximately RMB5,151,188,000.

As at 31 December 2019, total cash and cash equivalents of Nanjing High Speed were approximately RMB2,463,284,000.

As at 31 December 2019, Nanjing High Speed had total borrowings (including corporate bonds) of approximately RMB5,237,448,000, of which borrowings within one year were RMB4,738,275,000, accounting for approximately 90.5% of the total borrowings. The fixed or floating interest rates of Nanjing High Speed's borrowings as at 31 December 2019 ranged from 3.69 % to 8.00% per annum.

Taking into account of the internal financial resources of and the banking facilities available to Nanjing High Speed, and the net current assets of RMB5,151,188,000, as at 31 December 2019, the directors of Nanjing High Speed believe that Nanjing High Speed will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

Nanjing High Speed's gearing ratio (defined as total liabilities as a percentage of total assets) was 64.0 % as at 31 December 2019.

Capital Structure

Nanjing High Speed's operations were financed mainly by shareholders' equity, banking and other credits available to Nanjing High Speed and internal resources. Nanjing High Speed will continue to adopt its treasury policy of placing its cash and cash equivalents as interest-bearing deposits.

Nanjing High Speed's cash and cash equivalents were mainly denominated in RMB and USD as at 31 December 2019.

As at 31 December 2019, all borrowings were denominated in RMB.

As at 31 December 2019, Nanjing High Speed's borrowings with fixed interest rates amounted to approximately RMB5,147,448,000.

During the year ended 31 December 2019, Nanjing High Speed did not distribute any dividend.

Significant investment held

During the year ended 31 December 2019, Nanjing High Speed has not made or held any significant investments.

Significant acquisition and disposal

Nanjing High Speed did not conduct significant acquisition or disposal of subsidiaries and associates during the year ended 31 December 2019.

Contingent liabilities

As at 31 December 2019, Nanjing High Speed issued financial guarantees to a bank in respect of bank loans of RMB410,000,000 granted to an independent third party.

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. As at 31 December 2019, based on the assessment of the independent lawyers, a provision amounting to RMB8,066 thousands was accrued by management of the Group.

Commitments

As at 31 December 2019, Nanjing High Speed had capital commitments contracted for but not provided in the financial statements in respect of plant and machinery of approximately RMB231,162,000.

Foreign exchange risk

Nanjing High Speed operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR and HKD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. Approximately 31% of Nanjing High Speed's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 3% of costs were not denominated in the functional currency. Nanjing High Speed's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Nanjing High Speed currently did not enter into any hedge under Nanjing High Speed's foreign currency risk strategy as Nanjing High Speed considers the risk of movements in exchange rates between the above currencies and RMB to be insignificant.

The carrying amounts of Nanjing High Speed's monetary assets and monetary liabilities denominated in foreign currencies including financial assets at FVOCI, trade and other receivables, cash and cash equivalents and trade and other payables as at 31 December 2019 are as follows:

	RMB'000
Assets	
USD	979,993
EUR	254,603
HKD	2,572
Liabilities	
USD	54,874
EUR	11,319
HKD	–

Employees

As at 31 December 2019, Nanjing High Speed employed approximately 5,721 employees in continuing operations. Employee benefit expenses of Nanjing High Speed for the year ended 31 December 2019 approximated to RMB1,291,040,000. The expenses included wages and salaries, pension scheme contributions, share-based payment expenses and other benefits.

Pledge of assets

As at 31 December 2019, certain assets of Nanjing High Speed and its subsidiaries were pledged to secure certain banking and other facilities granted to them as follows:

	As at 31 December 2019 *RMB'000*
Bills receivable	1,179,231
Property, plant and equipment	757,984
Land use rights	176,107
Pledged bank deposits	2,642,560
	4,755,882

For the year ended 31 December 2020

Business review

Nanjing High Speed and its subsidiaries are principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications.

During the year ended 31 December 2020, Nanjing High Speed recorded revenue from contracts with customers of approximately RMB13,181,084,000. The gross profit margin was approximately 23.2%. Profit attributable to owners of Nanjing High Speed was approximately RMB796,447,000.

Financial review

Revenue

During the year ended 31 December 2020, Nanjing High Speed's revenue from contracts with customers was approximately RMB13,181,084,000.

Gross profit margin and gross profit

During the year ended 31 December 2020, Nanjing High Speed's gross profit margin was approximately 23.2%. Gross profit for the year ended 31 December 2020 amounted to approximately RMB3,061,761,000.

Financial resources and liquidity

The equity attributable to owners of Nanjing High Speed for the year ended 31 December 2020 amounted to approximately RMB5,244,716,000. Nanjing High Speed had total assets of approximately RMB18,578,232,000 as at 31 December 2020. Total current assets were approximately RMB13,951,819,000. Total non-current assets were approximately RMB4,626,413,000.

Total liabilities of Nanjing High Speed as at 31 December 2020 were approximately RMB13,303,224,000. Total current liabilities were approximately RMB12,722,295,000. Total non-current liabilities were approximately RMB580,929,000.

As at 31 December 2020, the net current assets of Nanjing High Speed were approximately RMB1,229,524,000.

As at 31 December 2020, total cash and cash equivalents of Nanjing High Speed were approximately RMB1,788,260,000.

As at 31 December 2020, Nanjing High Speed had total borrowings (including corporate bonds) of approximately RMB2,178,970,000, of which borrowings within one year were RMB2,178,970,000, accounting for 100.0% of the total borrowings. The fixed or floating interest rates of Nanjing High Speed's borrowings as at 31 December 2020 ranged from 3.45% to 5.44% per annum.

Taking into account of the internal financial resources of and the banking facilities available to Nanjing High Speed, and the net current assets of approximately RMB1,229,524,000, as at 31 December 2020, the directors of Nanjing High Speed believe that Nanjing High Speed will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

Nanjing High Speed's gearing ratio (defined as total liabilities as a percentage of total assets) was 71.6% as at 31 December 2020.

Capital Structure

Nanjing High Speed's operations were financed mainly by shareholders' equity, banking and other credits available to Nanjing High Speed and internal resources. Nanjing High Speed will continue to adopt its treasury policy of placing its cash and cash equivalents as interest-bearing deposits.

Nanjing High Speed's cash and cash equivalents were mainly denominated in RMB and USD as at 31 December 2020.

As at 31 December 2020, all borrowings were denominated in RMB.

As at 31 December 2020, Nanjing High Speed's borrowings with fixed interest rates was approximately RMB2,178,970,000.

As at 31 December 2020, Nanjing High Speed had no variable-rate borrowings.

During the year ended 31 December 2020, Nanjing High Speed recognised dividends as distribution of RMB3,850,000,000.

Significant investment held

During the year ended 31 December 2020, Nanjing High Speed has not made or held any significant investments.

Significant acquisition and disposal

Nanjing High Speed did not conduct significant acquisition or disposal of subsidiaries and associates during the year ended 31 December 2020.

Contingent liabilities

As at 31 December 2020, Nanjing High Speed issued financial guarantees to a bank in respect of bank loans of RMB410,000,000 granted to an independent third party.

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 the Historical Financial Information, the Claim was still awaiting for trial. As at 31 December 2020, based on the assessment of the independent lawyers, a provision amounting to RMB8,066 thousands was accrued by management of the Group.

Commitments

As at 31 December 2020, Nanjing High Speed had capital commitments contracted for but not provided in the financial statements in respect of plant and machinery of approximately RMB426,519,000.

Foreign exchange risk

Nanjing High Speed operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to USD, EUR and HKD. Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. Approximately 19% of Nanjing High Speed's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 2% of costs were not denominated in the functional currency. Nanjing High Speed's finance department is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. Nanjing High Speed currently did not enter into any hedge under Nanjing High Speed's foreign currency risk strategy as Nanjing High Speed considers the risk of movements in exchange rates between the above currencies and RMB to be insignificant.

The carrying amounts of Nanjing High Speed's monetary assets and monetary liabilities denominated in foreign currencies including financial assets at FVOCI, trade and other receivables, cash and cash equivalents and trade and other payables as at 31 December 2020 are as follows:

	RMB'000
Assets	
USD	1,028,052
EUR	204,688
HKD	18,744
Liabilities	
USD	196,767
EUR	1,339
HKD	–

Employees

As at 31 December 2020, Nanjing High Speed employed approximately 5,778 employees in continuing operations. Employee benefit expenses of Nanjing High Speed for the year ended 31 December 2020 approximated to RMB1,854,254,000. The expenses included wages and salaries, pension scheme contributions, share-based payment expenses and other benefits.

Pledge of assets

As at 31 December 2020, certain assets of Nanjing High Speed and its subsidiaries were pledged to secure certain banking and other facilities granted to them as follows:

	As at 31 December 2020 *RMB'000*
Bills receivable	1,202,626
Property, plant and equipment	600,754
Land use rights	146,068
Pledged bank deposits	1,640,286
	3,589,734

Future plans relating to material investment or capital assets

As at the Latest Practicable Date, Nanjing High Speed did not enter into any agreement in respect of any proposed acquisitions and did not have any other future plans relating to material investment or capital asset.

A. INTRODUCTION

The Unaudited Pro Forma Financial Information presented below is prepared to illustrate the financial position of the Group as at 31 December 2020 as if the proposed disposal of 43% equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd (the "Target Company") (the "Disposal") and the exercise of the Put Option had been completed on 31 December 2020. The Unaudited Pro Forma Financial Information is prepared based on the historical financial information set out in the published annual report of the Group for the year ended 31 December 2020, after giving effect to the pro forma adjustments which are directly attributable to the Disposal and the exercise of Put Option and factually supportable, as described in the notes thereto to demonstrate how the Disposal and the exercise of Put Option might have affected the historical financial information in respect of the Group.

The Unaudited Pro Forma Financial Information is prepared by the Directors of the Company in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited for the purpose of illustrating the effect of the Disposal only and is based on a number of assumptions, estimates, uncertainties and currently available information. Because of its hypothetical nature, the Unaudited Pro Forma Financial Information may not reflect the true picture of the consolidated financial positions of the Group would have been if the Disposal and the exercise of Put Option had been completed on 31 December 2020 or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with the Historical Financial Information of the Group as set out in the published annual report of the Company for the year ended 31 December 2020 and other financial information included elsewhere in this Circular.

B. UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF FINANCIAL POSITION OF THE GROUP AS AT 31 DECEMBER 2020

	The Group as at 31 December 2020	**Pro forma adjustments**	**After the disposal**	**Pro forma adjustments**	**After exercise of the Put Option by the investor**
	Audited	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)				
Non-current assets					
Property, plant and equipment	3,832,318	–	3,832,318	–	3,832,318
Right-of-use assets	646,930	–	646,930	–	646,930
Goodwill	26,414	–	26,414	–	26,414
Investments accounted for using the equity method	346,220	–	346,220	–	346,220
Financial assets at fair value through other comprehensive income	2,480,576	–	2,480,576	–	2,480,576
Financial assets at fair value through profit or loss	340,000	–	340,000	–	340,000
Other financial assets at amortised cost	576,421	–	576,421	–	576,421
Deposits for land leases	5,890	–	5,890	–	5,890
Deferred tax assets	258,122	–	258,122	–	258,122
	8,512,891	–	8,512,891	–	8,512,891
Current assets					
Inventories	3,703,960	–	3,703,960	–	3,703,960
Trade receivables	3,100,118		3,100,118		3,100,118
Other receivables	1,642,832	3,800,000 *Note (2)*	5,442,832	(3,800,000) *Note (4)*	1,642,832
Prepayments	1,115,896	–	1,115,896	–	1,115,896
Financial assets at fair value through other comprehensive income	3,422,363	–	3,422,363	–	3,422,363
Financial assets at fair value through profit or loss	515,126	–	515,126	–	515,126
Income tax prepaid	355	–	355	–	355
Pledged bank deposits	1,653,224	–	1,653,224	–	1,653,224
Cash and cash equivalents	2,184,334	500,000 *Note (2)*	2,684,334	(500,000) *Note (4)*	2,184,334
	17,338,208	–	21,638,208	–	17,338,208

	The Group as at 31 December 2020	Pro forma adjustments	After the disposal	Pro forma adjustments	After exercise of the Put Option by the investor
	Audited	*Unaudited*	*Unaudited*	*Unaudited*	*Unaudited*
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
	Note (1)				
Current liabilities					
Put option liability	–	4,300,000 *Note (2)*	4,300,000	(4,300,000) *Note (4)*	–
Trade payables	3,114,085	–	3,114,085	–	3,114,085
Bills payable	3,250,469	–	3,250,469	–	3,250,469
Other payables	767,311	8,409 *Note (3)*	775,720	1,075 *Note (6)*	776,795
Contract liabilities	2,203,973	–	2,203,973	–	2,203,973
Borrowings	2,378,970	–	2,378,970	–	2,378,970
Deferred income	19,654	–	19,654	–	19,654
Income tax payable	231,952	838,796 *Note (3)*	1,070,748	–	1,070,748
Warranty provision	578,595	–	578,595	–	578,595
	12,545,009	–	17,692,214	–	13,393,289
Net current assets	4,793,199	–	3,945,994	–	3,944,919
Total assets less current liabilities	13,306,090	–	12,458,885	–	12,457,810
Non-current liabilities					
Deferred income	177,551	–	177,551	–	177,551
Warranty provision	372,480	–	372,480	–	372,480
Deferred tax liabilities	132,851	–	132,851	–	132,851
	682,882	–	682,882	–	682,882
Net assets	12,623,208	–	11,776,003	–	11,774,928
Capital and reserves					
Share capital	119,218	–	119,218	–	119,218
Reserves	12,096,116	(3,098,378) *Note (3)*	8,997,738	2,250,098 *Notes (5) and (6)*	11,247,836
Equity attributable to equity shareholders of the Company	12,215,334	–	9,116,956	–	11,367,054
Non-controlling interests	407,874	2,251,173 *Note (3)*	2,659,047	(2,251,173) *Note (5)*	407,874
Total equity	12,623,208	–	11,776,003	–	11,774,928

C. NOTES TO THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

Notes:

1. The amounts are extracted from the audited consolidated statement of financial position of the Group as at 31 December 2020 included in the published annual report of the Group for the year ended 31 December 2020.

2. Pursuant to the Equity Transfer Agreement, the aggregate Consideration for the Disposals is RMB4,300,000,000. For more details of consideration, please refer to "Basis of Consideration" set out in the joint announcement of the Company published on 30 March 2021. For the purpose of the preparation of the Unaudited Pro Forma Financial Information of the Group, it is assumed that the Equity Transfer Agreement is signed at 31 December 2020.

   The Consideration will be settled by three instalments. For the purpose of preparation of the unaudited pro forma consolidated statement of financial position of the Group as at 31 December 2020, the Directors assumed the Conditions Precedent to the Disposal are fulfilled as at 31 December 2020, the earnest money of RMB500,000,000 upon signing the Equity Transfer Agreement is received on 31 December 2020 and offset with the partial payments of first instalment payments by the investor and the balance of remaining consideration of RMB3,800,000,000 is accounted for as consideration receivable and included in "Consideration receivables".

   The adjustment of RMB4,300,000,000 in put option liability represented the recognition of the liability in relation to the granting of the Put Option ("Put Option Liability"). Pursuant to the Equity Transfer Agreement, the Investor can request the Target Company to repurchase all of the 43% shares purchased by the investor at its discretion under certain conditions at an exercise price of RMB4,300,000,000 plus 6% interest per annum. The recognised Put Option Liability of RMB4,300,000,000 is estimated based on the present value of the exercise price of RMB4,300,000,000 plus 6% interest per annum, and on the assumption that the Put Option will be redeemable after 3 years from the Completion Date.

3. Since the Group did not lose control over the Target Company upon disposal of 43% equity interest of the Target Company, the disposal is accounted for as equity transaction. The effect on the equity attributable to the owners of the Company is summarised as follows:

	RMB'000
Total consideration for the Disposal	4,300,000
Less: Estimated professional costs directly attributable to the Disposal	(7,334)
Estimated stamp tax in relation to the Disposal	(1,075)
Estimated income tax recognised in other reserves	(512,207)
Less: 43% of net assets of the Target Company as at 31 December 2020	(2,251,173)
Excess recognised in reserves of the Group	1,528,211
Add: Initial recognition of Put Option liability	(4,300,000)
Total impact in other reserves	(2,771,789)
Add: Estimated income tax recognised in retained earnings	(326,589)
Total impact on equity attributable to the owners of the Company	(3,098,378)

The amount of professional fees is subject to change upon the actual completion of the Disposal.

4. The adjustment represents cash to be repaid to the Transferee to re-acquire the 43% equity interest of the Target Company held by the Transferee upon its exercise of the Put Option which is assumed to have taken place on 31 December 2020. For the purpose of preparation of the Unaudited Pro Forma Financial Information, RMB500,000,000 is to be repaid to the investor with reference to Note 2 above.

5. The adjustment represents reinstatement of non-controlling interests upon the exercise of the Put Option by the investor which is assumed to have taken place on 31 December 2020 for the purpose of the preparation of unaudited pro forma consolidated statement of financial position.

6. The adjustment represents the stamp duty to be paid by the Group upon exercise of Put Option by the investor to repurchase of 43% equity interest of the Target Company. No other adjustment has been made for professional costs directly attributable to the exercise of Put Option as the directors of the Group determined that these costs are insignificant.

7. Apart from notes above, no other adjustment has been made to reflect any result or other transactions of the Group entered into subsequent to 31 December 2020 for the purpose of preparation of the Unaudited Pro Forma Financial Information.

8. The above adjustments are not expected to have a continuing effect on the Unaudited Pro Forma Financial Information of the Group.

The following is the text of a report, prepared for the sole purpose of inclusion in this Circular, received from the independent reporting accountants of the Company, Baker Tilly Hong Kong Limited, Certified Public Accountants, Hong Kong, in respect of the unaudited pro forma financial information of the Group as set out in Sections B to C of Appendix IV to this Circular.

D. INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE COMPILATION OF PRO FORMA FINANCIAL INFORMATION

2nd Floor
625 King's Road
North Point
Hong Kong

To the directors of China High Speed Transmission Equipment Group Co., Ltd.

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (collectively the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated statement of financial position as at 31 December 2020 and related notes as set out on pages IV-4 to IV-5 of the circular dated 26 May 2021 (the "Circular") issued by the Company (the "Unaudited Pro Forma Financial Information"). The applicable criteria on the basis of which the Directors have compiled the Unaudited Pro Forma Financial Information are described in Appendix IV of the Circular.

The Unaudited Pro Forma Financial Information has been compiled by the Directors to illustrate the impact of the proposed disposal of 43% equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd (the "Target Company") (the "Disposal") and the exercise of put option on the Group's financial position as at 31 December 2020 as if the Disposal and the exercise of put option had taken place at 31 December 2020. As part of this process, information about the Group's financial position as at 31 December 2020 has been extracted by the Directors from the published annual report of the Group as at 31 December 2020.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The Directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

Our Independence and Quality Control

We have complied with the independence and other ethical requirements of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

Our firm applies Hong Kong Standard on Quality Control 1 "Quality Control for Firms That Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements" issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of Unaudited Pro Forma Financial Information included in the Circular is solely to illustrate the impact of a significant event or transaction on the unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the events or transactions as at 31 December 2020 would have been as presented.

A reasonable assurance engagement to report on whether the Unaudited Pro Forma Financial Information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the Unaudited Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

– The related pro forma adjustments give appropriate effect to those criteria; and

– The Unaudited Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgement, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the Unaudited Pro Forma Financial Information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Unaudited Pro Forma Financial Information.

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

Opinion

In our opinion:

(a) The Unaudited Pro Forma Financial Information has been properly compiled on the basis stated;

(b) Such basis is consistent with the accounting policies of the Group; and

(c) The adjustments are appropriate for the purpose of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong

26 May 2021

The following is the valuation report prepared for the purpose of inclusion in this circular by AVISTA Valuation Advisory Limited, an independent valuer, on its valuation of the entire equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd. (南京高速齒輪製造有限公司) as at 31 December 2020 in connection with the disposal of 43% equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd. (南京高速齒輪製造有限公司) by China High Speed Transmission Equipment Group Co., Ltd..

AVISTA Valuation Advisory
艾 華 迪 評 估 諮 詢

23rd Floor, Siu On Centre, No. 188 Lockhart Road,
Wan Chai, Hong Kong

TEL : (852) 3702 7338 FAX : (852) 3914 6388
info@avaval.com
www.avaval.com

26 May 2021

The Board of Directors
China High Speed Transmission Equipment Group Co., Ltd.
Room 1302, 13th Floor, COFCO Tower
No. 262 Gloucester Road
Causeway Bay
Hong Kong

Dear Sirs/Madams,

Re: Valuation of 100% Equity Interest of Nanjing High Speed Gear Manufacturing Co., Ltd.

In accordance with your instructions, AVISTA Valuation Advisory Limited ("**AVISTA**" or "**we**") has conducted a fair value valuation in connection with the fair value of the 100% equity interest of Nanjing High Speed Gear Manufacturing Co., Ltd. ("**Nanjing High Speed**" or the "**Target**"), an indirect non-wholly owned subsidiary of China High Speed Transmission Equipment Group Co., Ltd. (the "**Company**", "**CHS**" or "**you**"), as of 31 December 2020 (the "**Valuation Date**"). We understand that the Company intends to enter into an equity transfer agreement to dispose 43% equity interest of the Target to Shanghai Wensheng Asset Management Co. Ltd. (the "**Proposed Transaction**").

It is our understanding that this appraisal is strictly addressed to the directors of the Company (the "**Directors**") and used for the Proposed Transaction solely for your internal reference purpose. This report (the "**Report**") does not constitute an opinion on the commercial merits and structure of the Proposed Transaction. We are not responsible for unauthorized use of the Report.

We accept no responsibility for the realisation and completeness of any estimated data, or estimates furnished by or sourced from any third parties which we have used in connection with this Report. We assumed that financial and other information provided to us are accurate and complete.

This Report presents the summary of the business appraised, describes the basis of analysis and assumptions and explains the analysis methodology adopted in this appraisal process to calculate the value.

BASIS OF ANALYSIS

We have appraised the fair value of 100% equity interest of the Target.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

COMPANY BACKGROUND

CHS is principally engaged in the research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use in the People's Republic of China (the "**PRC**").

Nanjing High Speed is an indirect non-wholly owned subsidiary of CHS. The Target is principally engaged in manufacturing and sale of gear, gearbox and fittings.

We understand that the Company intends to enter into an equity transfer agreement with Shanghai Wensheng Asset Management Co., Ltd. (the "**Purchaser**") to sell 43% equity interest of the Target to the Purchaser.

The Proposed Transaction constitutes a major transaction for the Company and is, therefore, subject to the reporting, announcement, circular and shareholders' approval requirements under Chapter 14 of the rules governing the listing of securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

As such, the Company engaged us as an independent valuer to assess the fair value of the 100% equity interest of the Target as of the Valuation Date.

SCOPE OF WORK

In conducting this valuation exercise, we have

- Co-ordinated with the Company's representatives to obtain the required information and documents for our valuation;
- Gathered the relevant information of the Target, including the legal documents, financial statements, etc. made available to us;
- Discussed with the Company and the Target to understand the history, business model, operations, business development plan, etc. of the Target for valuation purpose;
- Carried out researches in the sector concerned and collected relevant market data from reliable sources for analysis;
- Studied the information of the Target made available to us and considered the bases and assumptions of our conclusion of value;
- Selected an appropriate valuation method to analyze the market data and derived the estimated fair value of the Target; and
- Compiled this Report on the valuation, which outlines our findings, valuation methodologies and assumptions, and conclusion of value.

When performing our valuation, all relevant information, documents, and other pertinent data concerning the assets, liabilities and contingent liabilities should have been provided to us. We relied on such data, records and documents in arriving at our opinion of values and had no reason to doubt the truth and accuracy of the information provided to us by the Company, the Target and their authorized representatives.

ECONOMIC OVERVIEW

Overview of the PRC economy

China has been showing signs of recovery from the virus-induced recession while the European countries and the U.S are still struggling to contain the spread of the Coronavirus Disease 2019 (the "**COVID-19**"). In the domestic market, the monetary and fiscal stimulus effectively boosted the investment and retail sales in the second half of 2020. For external demand, the repeated lockdowns in Europe and the US disrupted the factory operations, which created a booming demand for China-manufactured personal protective equipment ("**PPE**") and electronic products.

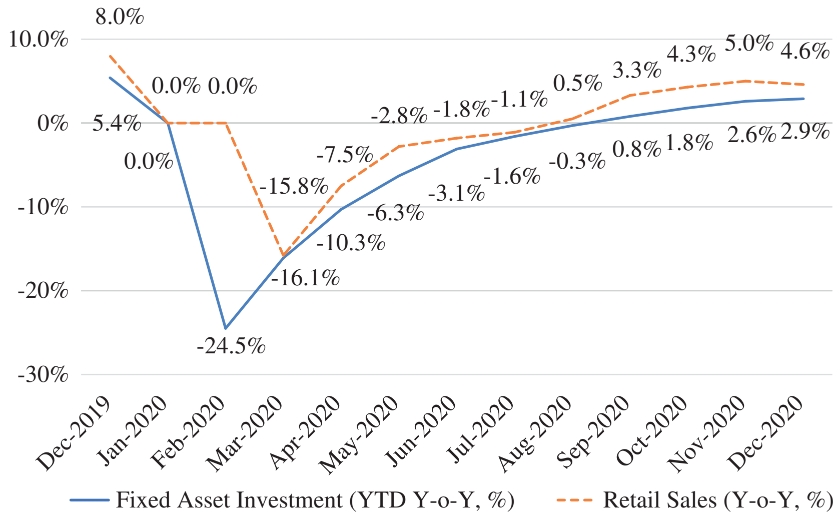
The real GDP growth of China accelerated by 6.5% year-on-year ("**y-o-y**") in Q4 2020, reversing the economy to the growth path with 2.3% y-o-y for the whole year from the virus-induced contraction in early 2020. According to the National Bureau of Statistics of China ("**NBS**"), the fixed asset investment increased by 2.9% year-to-date ("**YTD**") y-o-y in December 2020, of which the investment in infrastructure rose by 0.9% YTD y-o-y. Meanwhile, the retail sales increased by 4.6% y-o-y in December 2020 with a growth trend for 5 consecutive months and decreased by 3.9% over 2020, of which the online sales accounted for 24.9%. According to China's General Administration of Customs (the "**Customs**"), the exports surged by 18.1% y-o-y in December 2020 and increased by 3.6% y-o-y for the full year of 2020, primarily driven by the rising overseas demand for PPE and electronic products as mentioned.

Despite improving data of investment and retail sales, the inflation environment facing the consumers and producers remained muted in the final month of 2020. The NBS reported that the consumer price index ("**CPI**") rose by 0.2% y-o-y in December 2020. The core CPI, which excludes volatile food and energy prices, increased by 0.8% y-o-y in 2020 as a whole. In addition, it has been in deflation for the producer price index ("**PPI**") since February 2020, with -0.4% y-o-y in December 2020 and -1.8% y-o-y in the whole year of 2020 reported by the NBS. Therefore, the monetary and fiscal stimulus would still play a role in sustaining the economic recovery at a steady pace.

To tackle the economic challenges from the COVID-19 outbreak in early 2020, China rolled out numerous monetary measures to stimulate the economy in crisis. Specifically, the People's Bank of China (the "**PBoC**") announced cuts on the rates of one-year medium-term lending facility ("**MLF**") loans to financial institutions. The rates were reduced by 10bps to 3.15% in February 2020 and by another 20bps to 2.95% in April 2020. Meanwhile, the growth of money supply ("**M2**") also advanced in the first half of 2020, significantly outpacing the growth level in 2019. In the period between April 2020 and November 2020, the y-o-y increase of China's money supply remained solidly at around 11%, higher than the y-o-y growth of 8.7% in December 2019. The reductions of the key rate lower financing cost and facilitate the easing monetary environment for economic recovery.

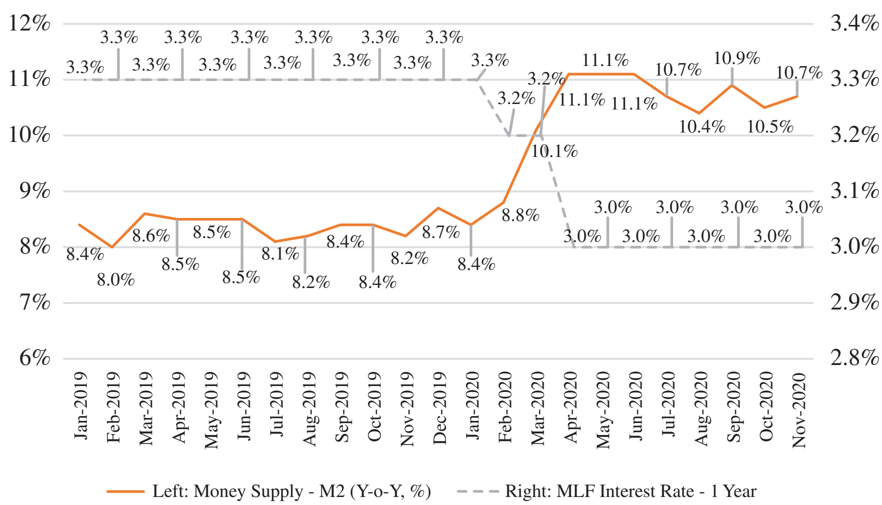
Looking ahead, despite better control of the spread of COVID-19 in China, the ongoing virus containment measures in the western countries will weigh on the recovery of global demand. According to the World Bank, global growth is expected to be 4% and 3.8% in 2021 and 2022, respectively. With the Chinese government promoting the dual-circulation strategy, domestic demand is expected to be the key driver for the recovery path of China's economy. According to International Monetary Fund ("**IMF**"), China's GDP per capita is forecasted to reach USD16,242 in 2025, which drives the domestic demand with expanding middle-class as "internal circulation" for the long-term growth of China's economy.

Fixed Asset Investment and Retail Sales Y-o-Y Growth of the PRC



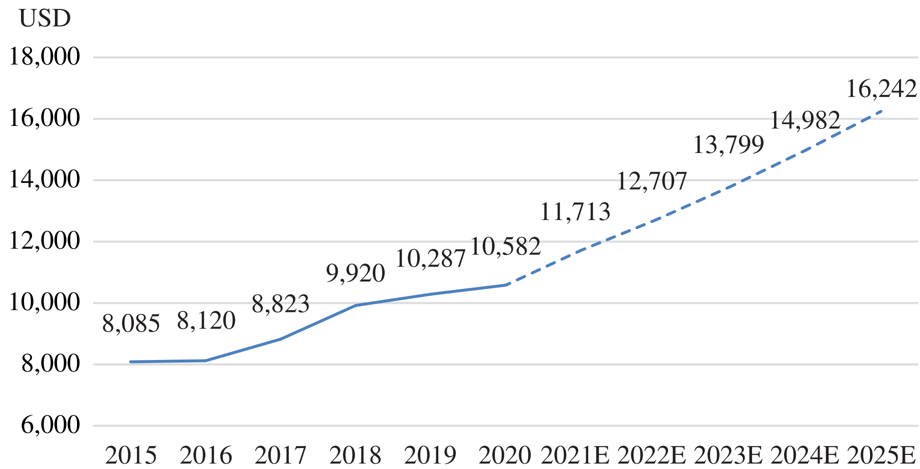
(Source: NBS)

Money Supply (M2), Y-o-Y, and 1-Year MLF Interest Rate of the PRC



(Source: NBS, PBoC, Bloomberg)

GDP per capita of the PRC



(Source: World Economic Outlook, IMF, October 2020)

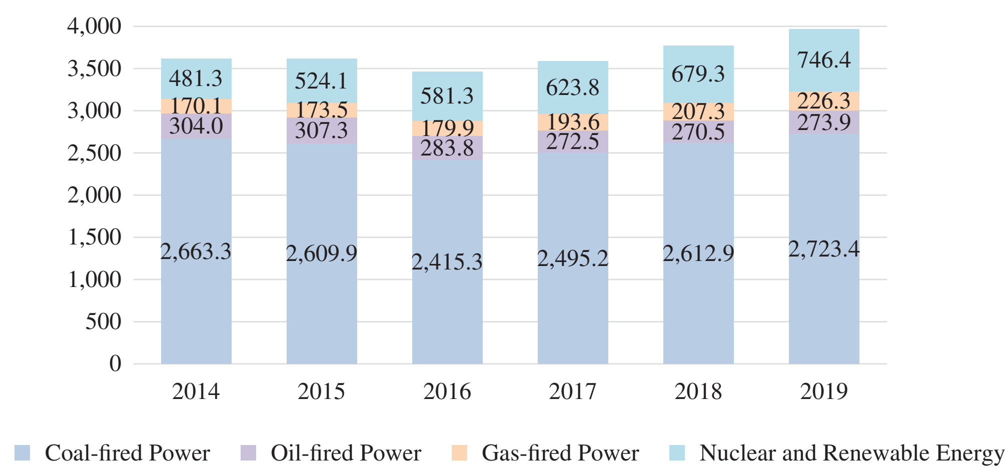
INDUSTRY OVERVIEW

Overview of the PRC power generation market

As a result of the economic uptrend of the PRC in previous years, the PRC has been establishing an increasingly diversified energy portfolio and has been shifting the centric of energy sources to clean and renewable energy. Total annual power generation in the PRC has increased from 3,618.7 million tonne-coal-equivalent ("**Tce**") in 2014 to 3,970.0 million Tce in 2019, representing a compound annual growth rate ("**CAGR**") of 1.9% across the period. Among the national composition, percentage of fired power to the total power generation has decreased from 86.7% in 2014 to 81.2% in 2019. Annual nuclear energy and renewable energy generation in total have increased from 481.3 Tce in 2014 to 746.4 Tce in 2019 with a CAGR of 9.2%. The PRC government is keen to drive the development in renewable energy via principle policies such as the 13th Five-year Plan of the Development Energy issued by the National Development and Reform Commission. Practical measures, including but not limited to subsidies to related corporations, efficient market regulations and public investment in critical infrastructure, have been put in place.

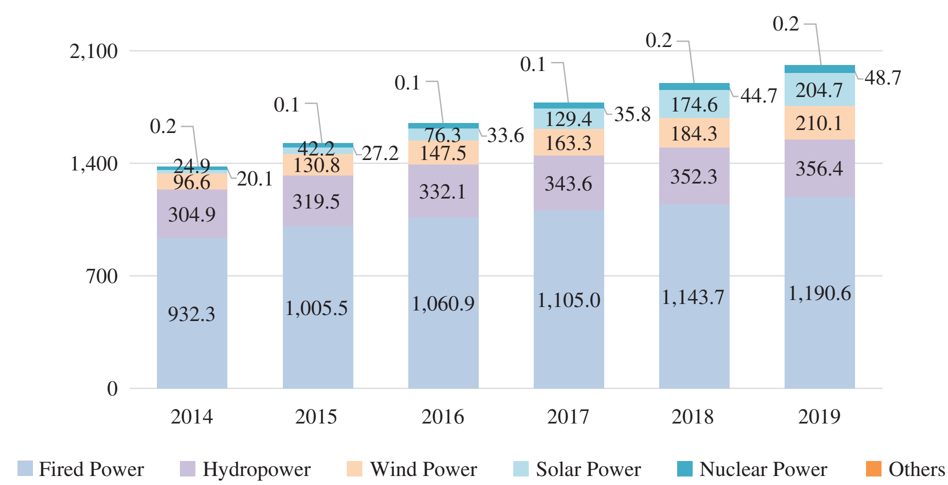
Further expansion of renewable energy generation, in particular hydropower, wind power and solar power, is expected in shed of the enlarged installed capacity. According to NBS, newly installed capacity of hydropower has increased by 16.9% from 304.9 gigawatt ("**GW**") in 2014 to 356.4 GW in 2019; that of wind power has increased by 117.5% from 96.6 GW in 2014 to 210.1 GW in 2019; and that of solar power has increased by 722.1% from 24.9 GW in 2014 to 204.7 GW in 2019. Total capacity of national renewable generation is growing more rapidly due to technology advancement and advantageous commercial environment for the related industry. The PRC government has issued the Notice on Building and Improving the System of Ensuring the Renewable Energy Consumption in May 2019 and the Action Plan of Clean Energy Consumption (2018-2020) in October to support the completion and maintenance of public power grid and thus to signal a more promising and reliable income stream for the renewable power plant operators. Lower cost of efficient power generators and solar panels shall further enhance the profitability of the industry.

Power Generation by Different Energy Sources in the PRC (in million Tce)



(Source: National Bureau of Statistics of China)

Newly Installed Capacity of Power Generation in the PRC (in GW)



(Source: National Bureau of Statistics of China, National Energy Administration of the PRC)

LIMITATIONS OF THE REPORT

The Report is addressed strictly to the Directors for their internal reference only. Accordingly, the Report may not be used nor relied upon in any other connection by, and are not intended to confer any benefit on, any person (including without limitation the respective shareholders of the Company and the Target).

The Report does not constitute an opinion on the commercial merits and structure of the Proposed Transaction. The Report does not purport to contain all the information that may be necessary or desirable to fully evaluate the Proposed Transaction. We are not required to and have not conducted a comprehensive review of the business, technical, operational, strategic or other commercial risks and merits of the Proposed Transaction and such remain the sole responsibility of the Directors and the management of the Company (the "**Management**").

We have assumed and relied upon, and have not independently verified the accuracy, completeness and adequacy of the information provided or otherwise made available to us or relied upon by us in the Report, especially for the historical financial information of the Target from FY2018 up to 31 October 2020, whether written or verbal, and no representation or warrant, expressed or implied, is made and no responsibility is accepted by us concerning the accuracy, completeness or adequacy of all such information.

Moreover, our valuation has also relied upon other information obtained from public sources which we believe to be reliable. We accept no responsibility for accuracy and reliability of any information obtained from public sources.

The outbreak of COVID-19, as declared by the World Health Organization as a global pandemic on 11 March 2020, has been adversely affecting the global economy as well as the financial markets. As such, the subsequent impact due to COVID-19 has imposed an unprecedented set of circumstances on which to base a valuation judgement as of the Valuation Date. In particular, the increased volatilities in political, legal, fiscal, economic conditions and/or other market situations as a result of COVID-19 would bring higher uncertainties to the underlying assumptions. Consequently, higher degree of caution should be attached to our valuation than would normally be the case.

VALUATION ASSUMPTIONS OF BUSINESS ENTERPRISE VALUE ANALYSIS

In arriving at our opinion of value, we have considered the following principal factors:

- the economic outlook for the region operated by the Target and specific competitive environments affecting the industry;
- the business risks of the Target;
- the comparable companies are engaging in business operations similar to the Target;
- the experience of the management team of the Target and support from its shareholders; and
- the legal and regulatory issues of the industry in general.

A number of general assumptions have to be made in arriving at our value conclusion. The key assumptions adopted in this valuation include:

- There will be no material change in the existing political, legal, technological, fiscal or economic conditions, which might adversely affect the business of the Target;

- There was no material change in terms of business operation and financial position of the Target between 31 October 2020 and the Valuation Date; and

- We have assumed that there are no hidden or unexpected conditions associated with the assets valued that might adversely affect the reported values. Further, we assume no responsibility for changes in market conditions after the Valuation Date.

VALUATION APPROACH

General Valuation Approaches

There are three generally accepted approaches to appraise the fair value of the equity value of the Target, namely Income Approach, Cost Approach and Market Approach. All three of them have been considered regarding the valuation of the Target:

Income Approach: The income approach provides an indication of value based on the principle that an informed buyer would pay no more than the present value of anticipated future economic benefits generated by the subject asset.

The fundamental method for income approach is the discounted cash flow ("**DCF**") method. Under the DCF method, the value depends on the present value of future economic benefits to be derived from ownership of the enterprise. Thus, an indication of the equity value is calculated as the present value of the future free cash flow of a company less outstanding interest-bearing debt, if any. The future cash flow is discounted at the market-derived rate of return appropriate for the risks and hazards of investing in a similar business.

Cost Approach: The cost approach considers the cost to reproduce or replace in new condition the assets appraised in accordance with current market prices for similar assets, with allowance for accrued depreciation arising from condition, utility, age, wear and tear, or obsolescence (physical, functional or economical) present, taking into consideration past and present maintenance policy and rebuilding history.

Market Approach

The market approach provides an indication of value by comparing the subject asset to similar assets that have been sold in the market, with appropriate adjustments for the differences between the subject asset and the assets that are considered to be comparable to the subject asset.

Under the market approach, the comparable company method computes a price multiple for publicly listed companies that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset. The comparable transaction method computes a price multiple using recent sales and purchase transactions of assets that are considered to be comparable to the subject asset and then applies the result to a base of the subject asset.

Selected Valuation Approach

Each of the abovementioned approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature. In this appraisal regarding the fair value of the equity value of the Target, we applied the Market Approach due to the following reasons:

- Cost Approach is not appropriate in current appraisal as it assumed the assets and liabilities of the Target are separable and can be sold separately. This methodology is more appropriate for the industry that their assets are highly liquid, like property development and financial institution. Thus, Cost Approach is not adopted in this valuation.

- Income Approach is also considered inappropriate as plenty of assumptions were involved in formulating the financial projection of the Target, and the assumptions might not be able to reflect the uncertainties in the future performance of the Target. While the COVID-19 outbreak has significant impact on the global economy in general and there is no widely accepted consensus on potential influence in the future available, the Management considers that they cannot provide a precise and concrete financial projection on the business due to the evolving uncertainties of market environment. Given that improper assumptions will impose significant impact on the fair value, Income Approach is not adopted in this valuation.

- Fair value arrived from Market Approach reflects the market expectations over the corresponding industry as the price multiples of the comparable companies were arrived from market consensus. Since there are sufficient public companies in similar nature and business to that of the Target, their market values are good indicators of the industry. Therefore, Market Approach has been adopted in this valuation.

There are two methods commonly used in performing market approach, namely comparable transactions and comparable companies.

The comparable transactions are selected with reference to the following selection criteria:

- The primary industry of the acquiree is being in industry of electrical equipment or industrial conglomerates, or sub-industry of industrial machinery, under Global Industry Classification Standard, as extracted from S&P Capital IQ;
- The principal business of the acquiree is provision of the manufacturing and sales of energy generation equipment;
- The principal business activities of the acquiree are mainly conducted in the PRC;
- The transaction was announced between January 2020 and December 2020; and
- The financial information of the companies is available to the public.

Based on the above selection criteria, there was no available comparable transaction with the acquiree engaging in similar businesses in the PRC as the Target during the selected period. Given the fact that no recent comparable transaction can be identified, we consider that the comparable transactions method is not appropriated for this valuation.

Comparable company method is therefore selected as the primary method for this valuation. By adopting comparable company method, we have to select the appropriate comparable public companies. The selection of the comparable companies was based on the comparability of the overall industry sector. Although no two companies are ever exactly alike, behind the differences there are certain business universals such as required capital investment and overall perceived risks and uncertainties that guided the market in reaching the expected returns for companies with certain similar attributes.

The comparable public companies are selected with reference to the following selection criteria:

- The primary industry of the companies is being in industry of electrical equipment or industrial conglomerates, or sub-industry of industrial machinery, under Global Industry Classification Standard, as extracted from S&P Capital IQ;
- The principal business of the companies is provision of the manufacturing and sales of energy generation equipment;
- The principal business activities of the companies are mainly conducted in the PRC;
- The companies are listed in all major exchange markets in the United States of America ("**US**") or Hong Kong ("**HK**");
- The companies are profit-making in the trailing 12-months ("**LTM**") as of the Valuation Date; and
- The financial information of the companies is available to the public.

During our research process, as obtained on the best effort basis, we have identified an exhaustive list of seven comparable companies that engaged in the provision of the manufacturing and sales of energy generation equipment. As mentioned above, since no two companies are ever exactly alike, the differences should not overshadow the similarities of the business nature of the companies. We consider these companies are comparable to Nanjing High Speed.

Details of the selected comparable companies are listed as follows:

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[(1)]
(1)	China High Speed Transmission Equipment Group Co., Ltd.	SEHK: 658	HK	China High Speed Transmission Equipment Group Co., Ltd., together with its subsidiaries, engages in the research, design, development, manufacture, and distribution of a range of mechanical transmission equipment in the People's Republic of China. It offers wind gear transmission equipment; industrial gear transmission equipment for the metallurgy, construction materials, traffic, transportation, petrochemical, aerospace, and mining industries; and rail transportation gear equipment products. The company provides gears, gear boxes, and fittings. It also engages in the provision of financial leasing services; and engineering processing and manufacturing, and trading businesses. The company also exports products to the United States, India, Brazil, and Europe.	Relevant to the Target's business: Wind Gear Transmission Equipment (84.12%)
(2)	China Nature Energy Technology Holdings Limited ("**Nature Energy**")	SEHK: 1597	HK	China Nature Energy Technology Holdings Limited, an investment holding company, manufactures and sells pitch control systems and related components in the People's Republic of China. The company operates through Sales of Pitch Control Systems and Related Components; Sales of Wind Power; Wind Farm Operation and Maintenance Business; and Provision of Wind Energy Related Consultancy Services segments. It offers high-voltage pitch control systems for wind turbines. The company also generates and sells wind power through 13 wind turbines with total installed capacity of 19.5 MW. In addition, it provides wind farm operation and maintenance, upgrade, and modification services, as well as wind energy related consultancy services; and sells wind farm consumables.	Relevant to the Target's business: Pitch Control System Related Integration, Manufacturing and Sales (80.95%); Wind Farm Operation and Maintenance (8.86%)

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[(1)]
(3)	Xinjiang Goldwind Science & Technology Co., Ltd. ("**Goldwind**")	SEHK: 2208	HK	Xinjiang Goldwind Science & Technology Co., Ltd., together with its subsidiaries, provides wind power solutions in China and internationally. It operates through four segments: Wind Turbine Generator Manufacturing, Wind Power Services, Wind Farm Investment and Development, and Others. The company engages in the research and development, manufacture, and sale of wind turbine generators and wind power components; development, construction, maintenance, operation, and sale of wind farms; and provision of wind power related consultancy and maintenance services. It is also involved in the manufacture and sale of wind power equipment and accessories; development and operation of water treatment plants; provision of finance leasing services, which comprise direct finance leasing and sale-lease back; and development and operation of solar power generation projects.	Relevant to the Target's business: Wind Turbine Generator Manufacturing and Sales (76.18%); Wind Farm Development (11.24%)
(4)	Dongfang Electric Corporation Limited ("**Dongfang Electric**")	SEHK: 1072	HK	Dongfang Electric Corporation Limited engages in the energy equipment manufacturing in China and internationally. It operates through five segments: Clean and Efficient Energy Equipment, Renewable Energy Sources Equipment, Engineering and Trade, Modern Manufacturing Services, and Emerging Growth Industries. The company also offers engineering contracting and services. It produced power generation equipment with a total capacity of 18.83 million kilowatt; 4,124 MW hydro-generating unit; 13,960 MW steam turbine generators; 1,003 MW wind power units; 15,272 MW power station steam turbines; and 15,051 MW power station boilers. The company was formerly known as Dongfang Electric Machinery Co., Ltd. and changed its name to Dongfang Electric Corporation Limited in October 2007. The company was founded in 1993 and is based in Chengdu, the People's Republic of China. Dongfang Electric Corporation Limited is a subsidiary of Dongfang Electric Corporation.	Relevant to the Target's business: High Efficiency and Clean Energy Equipment (47.23%)[(2)]; Renewable Energy Equipment (18.03%)[(2)]; Construction and Services (13.49%)[(2)]; New Energy (9.44%)[(2)];

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[1]
(5)	Harbin Electric Company Limited ("**Harbin Electric**")	SEHK: 1133	HK	Harbin Electric Company Limited, together with its subsidiaries, manufactures and sells power plant equipment in the People's Republic of China. It provides thermal power main equipment, including boilers, steam turbines, and steam turbine generators; hydropower main equipment, such as hydropower generators units; nuclear power main equipment comprising nuclear island and conventional island equipment; and a set of steam power equipment, including 9F/9H class gas turbine, and combined gas and steam cycle sets. The company also engages in the research and development, and production of clean energy products comprising solar energy, tidal power, and desalination products; and ancillary equipment for power stations, industrial boilers, industrial steam turbines, control devices, and AC/DC motors, as well as valves for power stations, pressure vessels, axial compressors, etc. In addition, it is involved in the construction of power station projects; servicing of thermal and hydropower equipment; import and export of equipment for power stations; provision of after sales service for power station equipment products; research and development of engineering technology for power equipment and its ancillary products; and provision of environmental protection engineering services, such as desulfurization, denitrification, and dust removal. The company also exports its products to Asia, South America, and Africa. Harbin Electric Company Limited is a subsidiary of Harbin Electric Corporation Co., Ltd.	Relevant to the Target's business: Main Thermal Power Equipment (36.65%); Engineering Services for Power Stations (23.94%); AC/DC Motors and Others (15.61%); Main Hydro Power Equipment (11.78%); Nuclear Power (5.66%); Ancillary Equipment for Power Stations (5.22%)

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[1]
(6)	Chongqing Machinery & Electric Co., Ltd. ("**Chongqing M&E**")	SEHK: 2722	HK	Chongqing Machinery & Electric Co., Ltd., together with its subsidiaries, designs, manufactures, and sells clean energy equipment and high-end smart manufacturing equipment. It manufactures and sells engines, hydroelectric generation equipment, electrical wires and cables, general machinery, machinery tools, high-voltage transformers, and other products. The company also designs, manufactures, and sells vehicle parts and components; industrial robots, intelligent equipment, etc.; processes electronic products; develops, produces, and leases laser, machinery, and testing equipment; turbines, governors, and auxiliary devices; gear processing machine tools and lathes; automation, intelligent equipment, and accessories; provides cotton picking services and maintains cotton machinery and spare parts; cutting tool; casting and forging of non-ferrous metal smelting and special metal smelting; electrical porcelain; agricultural machinery and accessories, special machine tools, spare parts, and special tooling; precision screw; multi-purpose CNC machine tools, roll grinders, and deep hole boring machines. In addition, it leases properties; engages in turbo mechanical product testing, equipment, and system maintenance and transformation; sewage collection, treatment, and operation management BOT business; other trade business; trades in machinery and raw materials; fan coolers; evaporative cooling, water-cooled, and air-cooled chillers; manufactures wind-power equipment, PPR\PPC tubular product, and gas compressors and components; sells network, environmental, and gas products; design and manufactures industrial pumps and parts, and pressure vessels; mechanical and electrical equipment technology; and sells steel, as well as provides loans. Chongqing Machinery & Electric Co., Ltd. is a subsidiary of Chongqing Machinery and Electronics Holding (Group) Co., Ltd.	Relevant to the Target's business: Power Equipment (36.99%); General Machinery (23.64%)

#	Company Name	Stock Code	Listing Location	Business Description	Revenue Contribution from Business Segment(s)[(1)]
(7)	Shanghai Electric Group Company Limited ("**Shanghai Electric**")	SEHK: 2727	HK	Shanghai Electric Group Company Limited, an equipment manufacturing conglomerate, provides clean energy, new energy and environmental protection, and industrial equipment, and modern services in the People's Republic of China. The company offers coal-fired power generation and corollary, gas-fired power generation, wind power, nuclear power, and energy storage equipment, as well as vessels for chemical industry. It provides elevators, escalators, electric motors and ramps, and industrial basic parts; intelligent manufacturing, traffic signal system, and construction industrialization equipment; blades, precision bearings, and fasteners; EPC project package services; and power grid and industrial intelligent power supply system solutions. The company offers energy, and environmental protection and automation engineering; industrial internet; financing leases and insurance brokerage; international trade; and property services. It provides turbine generators, gas turbines, and spare parts; power station and industry boilers; civil nuclear bearing, electrical and mechanical, and desulphurisation equipment; printing and packing machinery, artificial boards, air conditioners, welding materials, and engineering machinery; electrical switchgear and relevant services; turbines and auxiliary engines; building automation, management, and safety systems; technical consulting services; power transmission, distribution, and controlling equipment; electronic products; aircraft assembly lines equipment; blowers and transformer parts; diesel engine fuel pumps and components; wire and cable electrical equipment; and wire and cables. The company engages in the investment and asset management activities; real estate development and property management activities; and imports and exports of goods. Shanghai Electric Group Company Limited is a subsidiary of Shanghai Electric (Group) Corporation.	Relevant to the Target's business: Energy Equipment (32.93%); Integrated Services (31.62%)

Source: S&P Capital IQ and Bloomberg

(1) Based on FY2019 financial data from Bloomberg.

(2) Based on Dongfang Electric FY2019 annual report.

We consider CHS is comparable to Nanjing High Speed given that (i) the majority of revenue was generated from provision of the manufacturing and sales of energy generation equipment which is analogous to Nanjing High Speed; and (ii) the business is mainly conducted in the PRC. Since it is common to consider a comprehensive set of comparable companies that engaged in similar businesses, CHS should be selected as one of the comparable companies given that its shares are listed and publicly traded and its substantial business is similar to the Target.

We consider each of Nature Energy, Goldwind, Dongfang Electric and Harbin Electric is comparable to Nanjing High Speed given that (i) the majority of revenue was generated from provision of the manufacturing and sales of energy generation equipment which is analogous to Nanjing High Speed; and (ii) the business is mainly conducted in the PRC.

We consider Chongqing M&E is comparable to Nanjing High Speed given that (i) the general machinery segment is part of its clean energy equipment business according to its annual report of the financial year of 2019 which means that, together with the power equipment segment, the majority of revenue was generated from provision of the manufacturing and sales of energy generation equipment which is analogous to Nanjing High Speed; and (ii) the business is mainly conducted in the PRC.

Although Shanghai Electric derives less than 50% of its revenue from its energy equipment segment, we consider it is comparable to Nanjing High Speed given that (i) the revenue generated from the integrated services segment is considered as an extension to the provision of manufacturing and sales of energy generation equipment, which is analogous to Nanjing High Speed, which involves in the provision of energy engineering and services including but not limited to taking part in gas turbine combined cycle power plant projects and the provision of environmental protection engineering and services including but not limited to the provision of waste-to-energy power generation equipment and taking part in energy-generation-related waste treatment projects; and (ii) the business is mainly conducted in the PRC.

As over 50% of revenue of the above comparable companies are generated from manufacturing and sales of energy generation equipment, these comparable companies, together with the Target, are considered to be similarly subject to fluctuations in the economy and performance of the energy generation equipment manufacturing and sales industry, among other factors. Thus, we consider they are confronted with similar industry risks and rewards.

After selecting the abovementioned comparable companies, we have to determine the appropriate valuation multiples for the valuation of the Target, in which we have considered price-to-earnings ("**P/E**"), price-to-book ("**P/B**"), price-to-sales ("**P/S**"), enterprise value/sales ("**EV/S**"), enterprise value/earnings before interests and taxes ("**EV/EBIT**") and enterprise value/earnings before interests, taxes, depreciation and amortization ("**EV/EBITDA**") multiples.

P/B multiple is considered not appropriate for this valuation because book value captures only the tangible assets of a company which, if a company creates any added market value (as reflected by a P/B ratio of larger than one), should have its own intangible competencies and advantages. These intangible company-specific competencies and advantages are not captured in the P/B ratio and so in general, the equity's book value has little bearing with its fair value. Thus, the P/B multiple is not a good measurement of the fair value of a company.

P/S and EV/S multiples are considered not appropriate for this valuation because they do not consider the profitability of the Target nor the comparable companies. As both P/S and EV/S multiples only focus on the sales amounts but not the margins, the result will be easily distorted if the cost structure is not being taken into account. Thus, P/S and EV/S multiples are not adopted in this valuation.

EV/S, EV/EBITDA and EV/EBIT multiples use the market capitalization of a company as the starting point, considering the inclusion of the value of debt, minority interest, preferred shares and the exclusion of any cash and cash equivalents to represent enterprise value, which is then divided by sales, EBIT and EBITDA amount, respectively. Enterprise value generally requires normalized adjustments on debts and/or non-operating assets/liabilities of the Target which may be subjective. Thus, EV-related multiples are not adopted in this valuation.

P/E multiple is one of the most commonly used valuation multiples. It relates the market value of the equity interest of the Target to its earnings, an important driver of shareholders' value. We consider that it is fair and reasonable to use the P/E multiple for assessing the value of the Target because net income is a more direct economic measurement of earning attributable to the Target's equity value. In addition, the Target has been profit making for at least two years since FY2018. Hence, the P/E multiple is adopted in the valuation of the Target.

The P/E multiples of comparable companies are as follows:

No.	Company Name	Reporting Currency *(in million)*	Market Capitalization as of 31 December 2020	LTM Net Profit[(1)]	P/E Multiple Before LOMD[(1)]	P/E Multiple Before LOMD (excluding outliers)[(2)]
1	CHS	RMB	10,462	493	21.20	21.20
2	Nature Energy	RMB	280	48	5.86	5.86
3	Goldwind	RMB	59,330	804	73.75	N/A
4	Dongfang Electric	RMB	29,337	1,661	17.67	17.67
5	Harbin Electric	RMB	3,189	838	3.81	3.81
6	Chongqing M&E	RMB	1,427	155	9.19	9.19
7	Shanghai Electric	RMB	72,046	4,446	16.20	16.20
					Maximum	21.20
					Minimum	3.81
					Mean[(2)]	**12.32**
			Lack of Marketability Discount ("LOMD")[(3)]			**20.6%**

Notes:

(1) Data sourced from Bloomberg and the financial statements of the comparable companies. The equity values of the comparable companies are computed based on the market capitalization of the companies as of 31 December 2020. LTM net profit data are adjusted by non-recurring items as defined in Bloomberg database, based on the latest financial data of the comparable companies available as of the Valuation Date.

(2) To avoid distortion of selected multiples by abnormal data, companies with P/E multiples of more than one standard deviation below/above the average multiple are considered as outlier and have been excluded for analysis purpose. As the outlier of the P/E multiple is excluded after the standard deviation adjustment, we consider taking average of the available multiples is a fair and reasonable estimate of the P/E multiple for this valuation.

(3) LOMD reflects the fact that there is no ready market for shares in a closely held company. Ownership interests in closely held companies are typically not readily marketable compared to similar interests in publicly listed companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly listed company.

The P/E multiple adopted in the valuation was calculated from public listed companies, which represents marketable ownership interest. Fair value calculated using such P/E multiple, therefore, represents the marketable interest. Thus, LOMD was adopted to adjust such marketable interest fair value to non-marketable interest fair value.

The report "Stout Restricted Stock Study Companion Guide (2020 edition)" by Stout Risius Ross, LLC, a reputable research company, suggested an average marketability discount of 20.6% which is based on 759 private placement transactions of unregistered common shares issued by publicly traded companies from July 1980 through December 2019. A marketability discount of 20.6% is considered appropriate and suitable for this valuation as we understand that the Target is a group of privately held companies.

The value of non-marketable interest can be calculated from marketable interest using the following formula:

$$\textit{Fair Value of Non – Marketable Interest} = \textit{Fair Value of Marketable Interest} \times (1 - \textit{LOMD})$$

Valuation Result

	RMB'000
Adjusted Net Profit attributable to the Owners of the Target from November 2019 to October 2020[(1)(2)(3)]	1,013,551
Adjusted Mean of P/E Multiple	12.32x
LOMD	20.60%
Estimated 100% Equity Value of the Target (rounded)[(4)]	9,916,000

Notes:

(1) The net profit data is based on the consolidated financial statements of the Target provided by the Company for the year ended 31 December 2019 and the 10-month periods ended 31 October 2019 and 31 October 2020.

(2) As of the Valuation Date, the best available LTM consolidated financial information of the Target covered up to 31 October 2020 according to the Management. This has therefore been adopted for the valuation. The net profit attributable to the owners of Nanjing High Speed for the 12 months ended 31 October 2021 of RMB1,037,838k was adjusted by one-off foreign exchange losses arisen from intercompany balances of RMB12,507k and other one-off gain of RMB36,795k (including net impairment losses on financial assets of RMB59,758k, government subsidies of RMB105,721k, impairment losses on property, plant & equipment of RMB8,962k, fair value gain of RMB9,894k, investment gain of RMB9,094k, losses on disposal of assets of RMB8,078k and net tax impact arisen from other one-off losses of RMB11,117k). Foreign exchange losses arising from intercompany balances would affect the real and fair evaluation of the Target's current operating results and profitability regardless of whether they are relevant to the production and operation, so they are considered as one-off in nature. Government subsidies arising from the land resumption by the government authority are remote to the production and operation of Nanjing High Speed and hence regarded as one-off in nature. The remaining items are considered as abnormal or extraordinary in Bloomberg so they are considered as one-off in nature. Based on the abovementioned nature, the adjustments on the net profit attributable to the owners of the Target from November 2019 to October 2020 are considered to be fair and reasonable.

(3) Given the Directors reviewed the consolidated financial statements of the Target for the year ended 31 December 2019 and the ten months ended 31 October 2019 and 31 October 2020, respectively, and the auditors of CHS, Baker Tilly Hong Kong Limited ("**Baker Tilly**"), reviewed the accounting policies and calculations of the adjusted net profit attributable to the owners of the Target from November 2019 to October 2020 and is of the view that it has been presented on a basis consistent in all material respects with the accounting policies normally adopted by CHS, and in addition to our discussion with the Management on the basis of derivation of the adjusted net profit attributable to the owners of the Target from November 2019 to October 2020, we consider that the basis adopted for this valuation is fair and reasonable.

(4) According to the Management, the Target intends to declare and distribute a dividend of RMB1,280 million to its existing shareholders prior to the completion of the Proposed Transaction. Such amount shall be excluded from the implied 100% equity value of the Target before adjustment for lack of marketability of the Target. After adjustment for lack of marketability of 20.6%, the estimated proforma 100% equity value of the Target after dividend distribution shall amount to approximately RMB8,900 million as of the Valuation Date. As of the Latest Practicable Date, the Target has made a dividend distribution of RMB650 million to its existing shareholders.

CONCLUSION OF VALUE

Based on our investigation and analysis method employed, it is our opinion that the fair value of the 100% equity interest of the Target as of the Valuation Date is RMB 9,916 million.

The conclusion of the fair value was based on generally accepted valuation procedures and practices that rely extensively on the use of numerous assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

We hereby certify that we have neither present nor prospective interests in China High Speed Transmission Equipment Group Co., Ltd. nor the value reported.

Yours faithfully,
For and on behalf of
AVISTA Valuation Advisory Limited

Vincent C B Pang
CFA, FCPA(HK), FCPA (Aus.), MRICS
Managing Director

Analysed and Reported by:
Ivan K K Lui
CFA, FCPA(HK), LL.M., MRICS
Director

Hugo T H Wong
FRM
Assistant Manager

Mankry Y L Cheung
Analyst

Note: Mr. Vincent Pang is a member of CFA Institute and CPA Australia, a fellow member of the Hong Kong Institute of Certified Public Accountants, a member of Royal Institution of Chartered Surveyors (RICS) and a registered valuer of RICS. Vincent has over 20-year experience in financial valuation and business consulting in Hong Kong and the PRC.

APPENDIX – GENERAL LIMITATIONS AND CONDITIONS

This Report was prepared based on the following general assumptions and limiting conditions:

- All data, including historical financial data, which we relied upon in reaching opinions and conclusions or set forth in the Report are true and accurate to our best knowledge. Whilst reasonable care has been taken to ensure that the information contained in the Report is accurate, we cannot guarantee its accuracy and we assume no liability for the truth or accuracy of any data, opinions, or estimates furnished by or sourced from any third parties which we have used in connection with the Report.

- We also assume no responsibilities in the accuracy of any legal matters. In particular, we have not carried out any investigation on the title of or any encumbrances or any interest claimed or claimable against the property appraised. Unless otherwise stated in the Report, we have assumed that the owner's interest is valid, the titles are good and marketable, and there are no encumbrances that cannot be identified through normal processes.

- We have not verified particulars of property, including their areas, sizes, dimensions, and descriptions, which we have used or have referred to in connection with the preparation of this Report, unless otherwise stated in this Report. Any information regarding areas, sizes, dimensions, and descriptions of property mentioned in this Report are for identification purposes only, and no one should use such information in any conveyance or other legal document. Any plans or graphical illustrations presented in this Report are intended only for facilitating the visualization of the property and its surroundings and such plans or graphical illustrations should not be regarded as a survey or a scale for size.

- The value opinion presented in this Report is based on the prevailing or then prevailing economic conditions and on the purchasing power of the currency stated in the Report as of the date of analysis. The date of value on which the conclusions and opinions expressed apply is stated in this Report.

- This Report has been prepared solely for the use or uses stated. Except for extraction of or reference to the Report by the Company, its financial advisor and/or its independent financial advisor for their respective work in relation to the Proposed Transaction, it is not intended for any other use or purpose or use by any third parties. We hereby disclaim that we are not liable for any damages and/or loss arisen in connection with any such unintended use.

- Prior written consent must be obtained from AVISTA Valuation Advisory Limited for publication of this Report. Except for disclosure in the Circular in relation to the Proposed Transaction, no part of this Report (including without limitation any conclusion, the identity of any individuals signing or associated with this Report or the firms/companies with which they are connected, or any reference to the professional associations or organisations with which they are affiliated or the designations awarded by those organisations) shall be disclosed, disseminated or divulged to third parties by any means of publications such as prospectus, advertising materials, public relations, news.

- No environmental impact study has been carried out, unless otherwise stated in this Report. We assume all applicable laws and governmental regulations are being complied with unless otherwise stated in this Report. We have also assumed responsible ownership and that all necessary licenses, consents, or other approval from the relevant authority or private organisations have been or to be obtained or renewed for any use that is relevant to value analysis in this Report.

- Unless otherwise stated in this Report, the value estimate set out in this Report excludes the impact of presence of any harmful substances such as asbestos, urea-formaldehyde foam insulation, other chemicals, toxic wastes, or other potentially hazardous materials or of structural damage or environmental contamination. For purposes of evaluating potential structural and/or environmental defects, where their existence could have a material impact on value of the property, we would recommend that advices from the relevant experts, such as a qualified structural engineer and/or industrial hygienist, should be sought.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DIRECTORS' INTERESTS

As at the Latest Practicable Date, the following Directors or chief executive of the Company who held office had, or were deemed to have, interests or short positions in the Shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he/she is taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or which will be required to be notified to the Company and the Stock Exchange pursuant to the requirements for securities transactions by directors of listed issuers contained in the Listing Rules.

Interests in associated corporation

Name of Director	Name of associated corporation	Capacity/ 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(1)(2)	RMB150,000,000	6.98%
Mr. Wang Zhengbing	Nanjing High Speed	Other(1)(3)	RMB7,400,000	0.344%
Mr. Zhou Zhijin	Nanjing High Speed	Interest in controlled corporation(1)(4)	RMB7,400,000	0.344%
Mr. Gu Xiaobin	Nanjing High Speed	Other(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, 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. 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. 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. 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, as at the Latest Practicable Date, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of SFO); (ii) required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) required, pursuant to the Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at the Latest Practicable Date, so far as was known to the Directors, the following persons/entities (other than the Directors or chief executives of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying shares of the Company, its group members and/or associated corporations 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 were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Long position in Shares

Name of Shareholder	Nature of interest	Number of Shares*(Note 1)*	Approximate percentage of shareholding in the Company
Five Seasons*(Note 2)*	Beneficial owner	1,208,577,693 (L)	73.91%
Fullshare	Interest of controlled corporation	1,208,577,693 (L)	73.91%

Name of Shareholder	Nature of interest	Number of Shares (Note 1)	Approximate percentage of shareholding in the Company
Magnolia Wealth	Interest of controlled corporation	1,208,577,693 (L)	73.91%
Glorious Time (Note 3)	Beneficial owner	17,890,000 (L)	1.09%
Mr. Ji Changqun	Interest of controlled corporation	1,208,577,693 (L)	73.91%
("Mr. Ji") (Note 4)	Interest of controlled corporation	17,890,000 (L)	1.09%

Notes:

(1) The letter "L" denotes the person's long position in the Shares or the relevant group member.

(2) Five Seasons, a company incorporated in the British Virgin Islands, is wholly owned by Fullshare, while the issued share capital of Fullshare 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, Magnolia Wealth and Mr. Ji are considered to have interests in 1,208,577,693 Shares, representing approximately 73.91% of the issued Shares.

(3) 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, representing approximately 1.09% of the issued Shares.

(4) Five Seasons is owned more than one-third of interest 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, representing approximately 74.99% of the issued Shares.

Save as disclosed above and so far as was known to the Directors and chief executive of the Company, as at the Latest Practicable Date, no person (other than the Directors or chief executive of the Company) had any interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or had, directly or indirectly, interested in 10% or more of the issued voting shares of any other members of the Group.

4. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered into or proposed to enter into any service agreement/appointment letter with any member of the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

5. OTHER INTERESTS OF THE DIRECTORS

Save as disclosed in this circular, as at the Latest Practicable Date:

(a) none of the Directors had any interest, direct or indirect, in any assets which have been, since 31 December 2020, being the date of the latest published audited accounts of the Group, acquired or disposed of by, or leased to any member of the Group, or are proposed to be acquired or disposed of by, or leased to, any member of the Group; and

(b) none of the Directors was materially interested in any contract or arrangement subsisting as at the Latest Practicable Date and which is significant in relation to the business of the Group.

6. COMPETING INTERESTS

As at the Latest Practicable Date, save as aforesaid or as otherwise mentioned herein, none of the Directors nor his close associates (as defined in the Listing Rules) was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

7. LITIGATION

Save as disclosed in the paragraph headed "2. Statement of Indebtedness" in Appendix I of this circular, as far as the Directors are aware, none of the members of the Group was at present engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group as at the Latest Practicable Date.

8. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2020, being the date of which the latest published audited consolidated financial statements of the Group were made up.

9. MATERIAL CONTRACTS

The following contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years immediately preceding the date of this circular and are or may be material:

(a) the Equity Transfer Agreement; and

(b) a capital increase agreement dated 4 December 2020 entered into between the Vendor, Nanjing High Speed and the Employee Partnership Enterprise pursuant to which Nanjing High Speed shall increase its registered capital from RMB2 billion to RMB2.15 billion and the Employee Partnership Enterprise shall pay the increased registered capital of RMB150 million of Nanjing High Speed for a consideration of RMB150 million.

10. EXPERT'S QUALIFICATIONS AND CONSENT

The following are the qualifications of the expert who has given opinion or advice contained in this circular:

Name	Qualification
Baker Tilly Hong Kong Limited	Certified public accountants
AVISTA Valuation Advisory Limited	Independent valuer

As at the Latest Practicable Date, each of the abovementioned professional advisers had no interest, direct or indirect, in any member of the Group nor any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, each of the abovementioned professional advisers had no interest, direct or indirect, in any assets which had been, since 31 December 2020, being the date of the latest published audited accounts of the Group, acquired or disposed of by, or leased to, any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group.

Each of the abovementioned professional advisers has given and has not withdrawn its written consent as to the issue of this circular with the inclusion herein of its letters and reference to its name in the form and context in which it appears.

11. MISCELLANEOUS

(a) The company secretary of the Company is Mr. Lui Wing Hong, Edward, who is a fellow member of the Hong Kong Institute of Certified Public Accountants and an associate member of the Australian Society of Certified Practising Accountants.

(b) The registered office of the Company is located at 4th Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1002, Cayman Islands. The head office and principal place of business of the Company in Hong Kong is located at Room 1302, 13th Floor, COFCO Tower, No.262 Gloucester Road, Causeway Bay, Hong Kong.

(c) The share registrar and transfer office of the Company is SMP Partners (Cayman) Limited at 3rd Floor, Royal Bank House, 24 Shedden Road, P.O. Box 1586, Grand Cayman, KY1-1110, Cayman Islands. The Hong Kong branch share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) It is expected that there will be no variation to the aggregate of the remuneration payable to and benefit in kind receivable by the directors of Nanjing High Speed as a consequence of the Repurchase.

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of the Company's principal place of business in Hong Kong at Room 1302,13th Floor, COFCO Tower, No. 262 Gloucester Road, Causeway Bay, Hong Kong during normal business hours (except for Saturdays and public holidays) from the date of this circular up to and including the date which is 14 days from the date of this circular:

(a) the memorandum and the articles of association of the Company;

(b) annual reports of the Group for the financial years ended 31 December 2018, 2019 and 2020;

(c) the accountant's report on the historical financial information of Nanjing High Speed issued by Baker Tilly Hong Kong Limited, the text of which is set out in Appendix II to this circular;

(d) the assurance report on the compilation of pro forma financial information of the Group issued by Baker Tilly Hong Kong Limited, the text of which is set out in Appendix IV to this circular;

(e) the valuation report issued by AVISTA, the text of which is set out in Appendix V of this circular;

(f) the written consents referred to in the paragraph headed "10. Expert's Qualifications and Consent" in this appendix;

(g) the material contracts referred to in the paragraph headed "9. Material Contracts" in this appendix; and

(h) this circular.