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ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2022

FINANCIAL HIGHLIGHTS

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

* Gearing ratio = total liabilities/total assets

* For identification purpose only

The board (the “**Board**”) of directors (the “**Director(s)**”) of China High Speed Transmission Equipment Group Co., Ltd. (the “**Company**”) is pleased to announce the consolidated annual results of the Company and its subsidiaries (the “**Group**”) for the year ended 31 December 2022 together with comparative figures for the year ended 31 December 2021 as follows. The consolidated annual results have been reviewed by the Company’s audit committee.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB’000	2021 RMB’000
Revenue from contracts with customers	3	21,079,654	20,210,526
Cost of sales		(17,816,422)	(17,022,216)
Gross profit		3,263,232	3,188,310
Selling and distribution expenses		(479,184)	(430,244)
Administrative expenses		(557,794)	(480,059)
Research and development costs		(744,816)	(667,782)
Net impairment losses (recognised)/reversed on financial assets		(212,812)	42,823
Other income	4	210,242	306,450
Other gains/(losses) – net	5	120,851	(132,832)
Operating profit		1,599,719	1,826,666
Finance income	7	116,534	68,959
Finance costs	7	(588,814)	(233,498)
Finance costs – net		(472,280)	(164,539)
Share of results of associates and a joint venture accounted for using the equity method		(83,849)	(30,453)
Profit before income tax		1,043,590	1,631,674
Income tax expenses	8	(399,379)	(234,814)
Profit for the year		644,211	1,396,860

		Year ended 31 December	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
Profit attributable to:			
– Owners of the Company		101,599	1,315,245
– Non-controlling interests		542,612	81,615
		<u>644,211</u>	<u>1,396,860</u>
Earnings per share for profit attributable to owners of the Company (expressed in RMB)			
Basic and diluted earnings per share	<i>9</i>	<u>0.062</u>	<u>0.804</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

		As at 31 December	
		2022	2021
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		7,124,012	4,520,281
Right-of-use assets		676,284	672,705
Goodwill		26,414	26,414
Investments accounted for using the equity method		220,023	223,783
Financial assets at fair value through other comprehensive income		1,613,095	2,016,947
Financial assets at fair value through profit or loss		387,600	363,800
Other financial assets at amortised cost		–	608,921
Deposits for land leases		5,890	5,890
Deferred tax assets		728,894	378,938
		<u>10,782,212</u>	<u>8,817,679</u>
Current assets			
Inventories		6,928,601	5,206,919
Trade receivables	11	7,090,581	4,433,827
Other receivables	11	1,313,896	993,556
Prepayments		1,855,636	1,327,042
Financial assets at fair value through other comprehensive income		3,531,659	3,262,355
Financial assets at fair value through profit or loss		182,035	411,578
Other financial assets at amortised cost		641,421	–
Income tax prepaid		27,671	5,875
Pledged bank deposits		4,897,224	1,897,477
Cash and cash equivalents		4,383,517	3,284,166
		<u>30,852,241</u>	<u>20,822,795</u>

		As at 31 December	
		2022	2021
	<i>Note</i>	RMB'000	RMB'000
Current liabilities			
Trade payables	<i>12</i>	4,148,629	2,764,313
Bills payable	<i>12</i>	5,916,252	3,833,491
Other payables	<i>12</i>	1,309,726	2,189,571
Contract liabilities		1,508,801	824,532
Borrowings	<i>13</i>	4,657,412	3,998,099
Deferred income		18,495	12,484
Income tax payable		259,438	235,863
Warranty provision		988,395	863,250
Written put option liability	<i>17(b)</i>	4,514,175	–
		23,321,323	14,721,603
Net current assets		7,530,918	6,101,192
Total assets less current liabilities		18,313,130	14,918,871
Non-current liabilities			
Borrowings	<i>13</i>	3,185,172	–
Deferred income		303,077	200,477
Warranty provision		1,114,729	848,784
Deferred tax liabilities		115,582	101,575
		4,718,560	1,150,836
Net assets		13,594,570	13,768,035
Capital and reserves			
Share capital		119,218	119,218
Reserves		10,356,733	13,279,977
Equity attributable to owners of the Company		10,475,951	13,399,195
Non-controlling interests		3,118,619	368,840
Total equity		13,594,570	13,768,035

NOTES

1. GENERAL

The Company is a limited liability company incorporated in the Cayman Islands as an exempted company on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited with effect from 4 July 2007.

2. BASIS OF PREPARATION

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

(a) New and amended standards adopted by the Group

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

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

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

(b) New standards and interpretations not yet adopted

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

- Amendments to IAS 1, ‘Classification of liabilities as current or non-current’, effective for the accounting period beginning on 1 January 2024
- Amendments to IAS 1, ‘Non-current liabilities with covenants’, effective for the accounting period beginning on 1 January 2024
- Amendments to IAS 1 and IFRS Practice Statement 2, ‘Disclosure of accounting policies’, effective for the accounting period beginning on 1 January 2023
- IFRS 17 (including the October 2020 and February 2022 Amendments to IFRS 17), ‘Insurance contracts’, effective for the accounting period beginning on 1 January 2023
- Amendments to IFRS 17, ‘Initial Application of IFRS 17 and IFRS 9 –Comparative Information’, effective for the accounting period beginning on 1 January 2023

- Amendments to IAS 8, 'Definition of accounting estimates', effective for the accounting period beginning on 1 January 2023
- Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction', effective for the accounting period beginning on 1 January 2023
- Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an Investor and its Associate or Joint Venture', the effective date is to be determined
- Amendments to IFRS 16, 'Lease liability in a sale and leaseback', effective for the accounting period beginning on 1 January 2024

3. REVENUE AND OPERATING SEGMENT INFORMATION

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

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

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

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

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

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

(a) **Segment information**

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2022					
Segment revenue					
Total segment revenue	15,320,850	378,880	5,346,027	33,897	21,079,654
Inter-segment revenue	—	—	—	—	—
Revenue from external customers	<u>15,320,850</u>	<u>378,880</u>	<u>5,346,027</u>	<u>33,897</u>	<u>21,079,654</u>
Timing of revenue recognition					
At a point in time	<u>15,320,850</u>	<u>378,880</u>	<u>5,346,027</u>	<u>33,897</u>	<u>21,079,654</u>
Segment results	<u>1,411,301</u>	<u>49,770</u>	<u>101,175</u>	<u>(28,476)</u>	<u>1,533,770</u>
<i>Reconciliation:</i>					
Finance costs – net					(472,280)
Dividend income					3,005
Interest income from other financial assets at amortised cost					32,500
Interest income from deferred payment of consideration for partial disposal of a subsidiary					21,373
Foreign exchange gains, net					112,656
Fair value gains on financial assets at FVPL					25,403
Share of results of associates					(83,849)
Corporate and other unallocated expenses					(128,988)
Profit before income tax					<u>1,043,590</u>
Other segment information					
Write-down/(reversal of write down) of inventories	217,789	(157)	—	—	217,632
Net impairment losses recognised on financial assets	99,711	8,790	2,244	16,166	126,911
Impairment losses on property, plant and equipment	18,331	—	—	—	18,331
Impairment losses on prepayments	237	—	—	—	237
Depreciation of property, plant and equipment and right-of-use assets	418,929	4,699	45	351	424,024
Capital expenditure	<u>2,994,855</u>	<u>21,657</u>	<u>38</u>	<u>1</u>	<u>3,016,551</u>
As at 31 December 2022					
Segment assets	21,938,046	480,179	3,470,051	1,264,434	27,152,710
Corporate and other unallocated assets					14,481,743
Total assets					<u>41,634,453</u>
Segment liabilities	14,477,988	163,057	290,962	281,503	15,213,510
Corporate and other unallocated liabilities					12,826,373
Total liabilities					<u>28,039,883</u>

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2021					
Segment revenue					
Total segment revenue	13,991,299	370,938	5,763,631	93,464	20,219,332
Inter-segment revenue	(8,288)	(518)	–	–	(8,806)
Revenue from external customers	<u>13,983,011</u>	<u>370,420</u>	<u>5,763,631</u>	<u>93,464</u>	<u>20,210,526</u>
Timing of revenue recognition					
At a point in time	<u>13,983,011</u>	<u>370,420</u>	<u>5,763,631</u>	<u>93,464</u>	<u>20,210,526</u>
Segment results	<u>1,548,922</u>	<u>102,690</u>	<u>82,330</u>	<u>3,228</u>	1,737,170
<i>Reconciliation:</i>					
Finance costs – net					(164,539)
Dividend income					25,207
Interest income from other financial assets at amortised cost					32,500
Interest income from deferred payment of consideration for partial disposal of a subsidiary					94,118
Losses on disposal of a joint venture					(16,984)
Gains on disposal of subsidiaries					411
Foreign exchange losses, net					(67,907)
Fair value gains on financial assets at FVPL					28,684
Share of results of associates and a joint venture					(30,453)
Corporate and other unallocated expenses					(6,533)
Profit before income tax					<u>1,631,674</u>
Other segment information					
Write-down of inventories	157,483	6,714	–	–	164,197
Net impairment losses (reversed)/recognised on financial assets	(3,368)	3,711	3,112	(4,156)	(701)
Impairment losses on property, plant and equipment	80,762	1,470	–	–	82,232
Impairment losses on prepayments	7,711	–	–	–	7,711
Depreciation of property, plant and equipment and right-of-use assets	422,056	3,814	40	501	426,411
Capital expenditure	<u>1,225,688</u>	<u>19,972</u>	<u>74</u>	<u>22</u>	<u>1,245,756</u>
As at 31 December 2021					
Segment assets	15,425,872	464,886	2,732,756	820,817	19,444,331
Corporate and other unallocated assets					10,196,143
Total assets					<u>29,640,474</u>
Segment liabilities	9,935,849	188,499	56,786	171,484	10,352,618
Corporate and other unallocated liabilities					5,519,821
Total liabilities					<u>15,872,439</u>

(b) Geographical information

(i) Revenue from external customers

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

(ii) Non-current assets

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

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

(c) Information about major customers

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

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

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

4. OTHER INCOME

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

Note:

The amount represented extension interest received from deferred payment of consideration for the Group's disposal of 43% equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd. (南京高速齒輪製造有限公司) (“Nanjing High Speed”) during the year. Details of which are set out in Note 17.

5. OTHER GAINS/(LOSSES) – NET

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

6. EXPENSES BY NATURE

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

7. FINANCE INCOME AND COSTS

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Finance income		
– Interest income from bank deposits	85,031	45,387
– Interest income from loans to third parties	31,503	23,572
	<u>116,534</u>	<u>68,959</u>
Finance costs		
– Interest expenses on bank and other borrowings	(390,527)	(233,498)
– Less: Interest capitalised	15,888	–
– Written put option liability: unwinding of discount (<i>Note 17(b)</i>)	(214,175)	–
	<u>(588,814)</u>	<u>(233,498)</u>
Finance costs – net	<u><u>(472,280)</u></u>	<u><u>(164,539)</u></u>

8. INCOME TAX EXPENSES

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

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

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

(a) PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2021: 25%) on the taxable profits of the Group's PRC subsidiaries for the year ended 31 December 2022. The increase in PRC corporate income tax is attributable to an one-off tax of RMB315,140,000 (2021: Nil) arising from the partial disposal of a subsidiary during the year. Refer to Note 17 for details.

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

Name of company	Year ended during which approval was obtained	Year ending during which approval will expire
Nanjing High Speed	31 December 2020	31 December 2022
Nanjing High Speed & Accurate Gear (Group) Co., Ltd.	31 December 2020	31 December 2022
Nanjing High Accurate Rail Transportation Equipment Co., Ltd.	31 December 2020	31 December 2022
NGC (Baotou) Transmission Equipment Co., Ltd.	31 December 2021	31 December 2023
Jiangsu Green Lighting Engineering Co., Ltd.	31 December 2021	31 December 2023

(b) Hong Kong Profits Tax

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

(c) Other corporate income tax

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

9. EARNINGS PER SHARE

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

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Net profit attributable to owners of the Company	<u>101,599</u>	<u>1,315,245</u>
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	<u>1,635,291</u>	<u>1,635,291</u>
Basic earnings per share (RMB)	<u>0.062</u>	<u>0.804</u>

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

10. DIVIDENDS

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

11. TRADE AND OTHER RECEIVABLES

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

The Group generally allows a credit period within 90 days to its trade customers for trading business. Apart from that, the Group generally allows a credit period within 180 days to its customers for other sales. The Group seeks to maintain strict control over its outstanding receivables and has set up a credit control department to actively monitor the status of its outstanding receivables and take proper actions in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

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

(i) Fair values of trade and other receivables

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

(ii) Impairment and risk exposure

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

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

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

12. TRADE, BILLS AND OTHER PAYABLES

	As at 31 December	
	2022	2021
	RMB'000	RMB'000
Trade payables		
– Amounts due to third parties	4,148,611	2,764,295
– Amount due to an associate	18	18
	<u>4,148,629</u>	<u>2,764,313</u>
Bills payable	5,916,252	3,833,491
	<u>10,064,881</u>	<u>6,597,804</u>
Other payables		
– Accruals	135,996	125,652
– Other tax payables	44,539	20,515
– Purchase of property, plant and equipment	522,501	158,189
– Payroll and welfare payables	229,189	198,803
– Financial guarantee liabilities	3,417	6,359
– Consideration received for partial disposal of a subsidiary (Note 17)	–	1,000,000
– Dividends payable to non-controlling interests	–	89,002
– Amount due to an associate	15,000	15,000
– Amounts due to third parties	359,084	576,051
	<u>1,309,726</u>	<u>2,189,571</u>
	<u>11,374,607</u>	<u>8,787,375</u>

An ageing analysis of the trade and bills payable as at the end of the reporting period, based on the invoice date and the date of issuance of the bills, is as follows:

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

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

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

13. BORROWINGS

	As at 31 December			
	2022			2021
	Effective interest rate			Effective interest rate
	%	RMB'000	%	RMB'000
Current				
Bank loans – Unsecured	3.50-4.79	4,257,412	3.00-5.22	2,200,939
Bank loans – Secured		–	3.40-5.22	1,397,160
Loans from other financial institution – Secured	7.61	400,000	7.61	400,000
		<u>4,657,412</u>		<u>3,998,099</u>
Non-current				
Bank loans – Unsecured	4.53-4.55	849,756		–
Bank loans – Secured	3.10-5.03	2,335,416		–
		<u>3,185,172</u>		–
		<u>7,842,584</u>		<u>3,998,099</u>

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

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

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

The secured borrowings were secured by pledge of assets, details of which are set out in Note 16. In addition, as at 31 December 2022, the secured non-current bank loans were secured by the Group's 100% equity interests in NGC (Huai'an) High Speed Gear Manufacturing Co., Ltd.

14. CONTINGENT LIABILITIES

Financial guarantees

As at 31 December 2022, the Group issued financial guarantees to banks in respect of bank loans of RMB40,020 thousands granted to an associate (2021: RMB220,796 thousands granted to an associate and RMB3,000 thousands granted to an independent third party). This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At the end of the reporting period, an amount of RMB3,417 thousands (2021: RMB6,359 thousands) has been recognised in the consolidated statement of financial position as liabilities.

15. CAPITAL COMMITMENTS

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

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

16. ASSETS PLEDGED AS SECURITIES

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

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

17. PARTIAL DISPOSAL OF A SUBSIDIARY WITHOUT LOSS OF CONTROL

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

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

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

	For the year ended 31 December 2022 RMB’000
Consideration received for the Disposal	4,300,000
Less: Non-controlling interests recognised	(2,205,346)
Less: Income tax recognised directly in equity (<i>Note (a)</i>)	(523,664)
Less: Written put option liability recognised (<i>Note (b)</i>)	(4,300,000)
	<hr/>
Decrease in equity attributable to owners of the Company	(2,729,010)
	<hr/> <hr/>

Notes:

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

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

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

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

	RMB’000
At 1 January 2022	–
Issuance of written put option	4,300,000
Unwinding of discount	214,175
	<hr/>
At 31 December 2022	4,514,175
	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Principal Business Review

1. Wind gear transmission equipment

Diversified, large and overseas market development

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

The wind gear transmission equipment is a major product that has been developed by the Group. During the year, sales revenue of wind gear transmission equipment business increased by 10.3% to approximately RMB13,274,367,000 as compared with last year (2021: RMB12,039,140,000).

2. Industrial gear transmission equipment

Enhanced market competitiveness through changes in production modes and sales strategies

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

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

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

3. Rail transportation gear transmission equipment

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

The Group's rail transportation gear transmission equipment products are widely used in the rail transportation fields such as high-speed rails, metro lines, urban trains and trams. The Company has established long-term cooperative relationships with many well-known domestic and foreign companies in the industry. The Group has obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry for its rail transportation gear transmission equipment products, which has laid a solid foundation for further expansion in the international rail transportation market. Currently the products have been successfully applied to rail transportation transmission equipment in many Chinese cities, such as Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong and Taipei, and have also been successfully applied to rail transportation transmission equipment in various countries and regions such as Singapore, Brazil, Netherlands, India, Mexico, Tunisia, Australia, Canada, France, Spain, Romania and Tanzania. With optimized gearbox design technology, excellent sealing technology and effective control of the production process, the Company's rail transportation gear transmission equipment products are more environmental-friendly, and the products are well received by users.

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

4. Trading business

Explore and expand trading business through resource integration

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

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

LOCAL AND EXPORT SALES

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

FINANCIAL PERFORMANCE

REVENUE

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

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

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

GROSS PROFIT MARGIN AND GROSS PROFIT

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

OTHER INCOME

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

OTHER GAINS/(LOSSES) – NET

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

SELLING AND DISTRIBUTION EXPENSES

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

ADMINISTRATIVE EXPENSES

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

RESEARCH AND DEVELOPMENT COSTS

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

NET IMPAIRMENT LOSSES RECOGNISED ON FINANCIAL ASSETS

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

FINANCE COSTS

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

FINANCIAL RESOURCES AND LIQUIDITY

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

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

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

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

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

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

GEARING RATIO

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

CAPITAL STRUCTURE

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

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

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

PLEDGE OF ASSETS

Save as disclosed in above note 16, the Group has made no further pledge of assets as at 31 December 2022.

PROSPECTS

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

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

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

The Group continues to adhere to its green development strategy in terms of its business in industrial gear transmission equipment segment. By adhering to the concept of energy conservation, environmental protection and low carbon, the Group has continued to promote and improve the "standardized, modularized and serialized" product system, explore in-depth research on new transmission technology, and lead the development direction of industrial gear transmission to "four highs and three lows" (i.e., high power, high speed, high load and high precision; low power consumption, low vibration and low noise). Besides, the Group has also been actively developing driving technology and has developed an "integrated, intelligent and digital" driving product system. With the help of the Jiangsu Industrial Gear Engineering Research Center and Jiangsu Industrial High-speed Precision Gear Transmission Engineering Research Center, the Group has been provided with continuous support to enhance its technological innovation capability and market competitiveness. Customers of the industrial gear business of the Group include internationally renowned companies such as Heidelberg Cement (a company listed on the Frankfurt Stock Exchange (stock code: HEI) and the 678th largest listed company in the world in the Forbes Global 2000 in 2020) and Primetals Technologies (a joint venture of Mitsubishi Heavy Industries and its partners).

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

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

The Group's rail transportation gear transmission equipment is widely used in the rail transportation fields such as high-speed rails, metro lines, urban train and tram. The Company has established long-term cooperative relationships with many well-known domestic and foreign companies in the industry. The Group has obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry for its rail transportation gear box products, which has laid a solid foundation for further expansion in the international rail transportation market. Currently, the products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong, Taipei and other cities in the PRC and have also been successfully applied to rail transportation transmission equipment in multiple countries and regions such as Singapore, Brazil, Netherlands, India, Mexico, Tunisia, Australia, Canada, France, Spain, Romania and Tanzania. At the same time, the Group's rail transportation gear transmission equipment business has launched the IRIS system "Silver Medal" upgrade project in 2021 and officially obtained the IRIS "Silver Medal" certificate during the reporting period, which will greatly enhance the Group's influence in the rail transportation industry and ensure sustainable development of the Group.

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

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

OTHER SUPPLEMENTARY INFORMATION

FINAL DIVIDEND

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

FOREIGN EXCHANGE RISK

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

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

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

INTEREST RATE RISK

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

EMPLOYEES AND REMUNERATION

As at 31 December 2022, the Group employed approximately 7,580 employees (31 December 2021: 6,163). Staff cost of the Group for the year approximated to RMB1,722,118,000 (2021: RMB1,516,828,000). The cost included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE YEAR

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

IMPORTANT EVENTS AFTER THE END OF THE REPORTING YEAR

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

SCOPE OF WORK OF BAKER TILLY

The figures in respect of the Group's consolidated statement of financial position, consolidated income statement and consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2022 as set out in this announcement have been agreed with the Company's auditor, Baker Tilly Hong Kong Limited ("**Baker Tilly**"), which is consistent with the figures set out in the Group's consolidated financial statements for the year ended 31 December 2022. The work performed by Baker Tilly in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Baker Tilly on this announcement.

CORPORATE GOVERNANCE

During the year, the Company has complied with the code provisions set out in the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules, except for the deviation from code provision C.2.1 which states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) contained in Appendix 10 to the Listing Rules as its internal code of conduct regarding Directors’ securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

By order of the Board
China High Speed Transmission Equipment Group Co., Ltd.
HU JICHUN
Chairman

Hong Kong, 31 March 2023

As at the date of this announcement, the executive directors of the Company are Mr. Hu Jichun, Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Wang Zhengbing, Mr. Zhou Zhijin, Ms. Zheng Qing, Mr. Gu Xiaobin and Mr. Fang Jian; and the independent non-executive directors of the Company are Mr. Jiang Xihe, Ms. Jiang Jianhua, Dr. Chan Yau Ching, Bob and Mr. Nathan Yu Li.