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## CORPORATE INFORMATION

### BOARD OF DIRECTORS

#### Executive Directors

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

Mr. Hu Yueming

Mr. Chen Yongdao

Mr. Wang Zhengbing

Mr. Zhou Zhijin

Ms. Zheng Qing

Mr. Gu Xiaobin

#### Non-executive Director

Mr. Yuen Chi Ping

#### Independent non-executive Directors

Dr. Chan Yau Ching, Bob

Ms. Jiang Jianhua

Mr. Jiang Xihe

Mr. Nathan Yu Li

#### AUDIT COMMITTEE

Mr. Jiang Xihe (*Chairman*)

Dr. Chan Yau Ching, Bob

Mr. Nathan Yu Li

#### REMUNERATION COMMITTEE

Dr. Chan Yau Ching, Bob (*Chairman*)

Mr. Jiang Xihe

Mr. Chen Yongdao

#### NOMINATION COMMITTEE

Mr. Hu Jichun (*Chairman*)

Mr. Jiang Xihe

Mr. Nathan Yu Li

### REGISTERED OFFICE

4th Floor, Harbour Place

103 South Church Street

George Town

Grand Cayman KY1-1002

Cayman Islands

### AUDITOR

Baker Tilly Hong Kong Limited

### LEGAL ADVISER

Chungs Lawyers in association with DeHeng Law Offices

### HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1302

13th Floor

COFCO Tower

No.262 Gloucester Road

Causeway Bay

Hong Kong

### PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

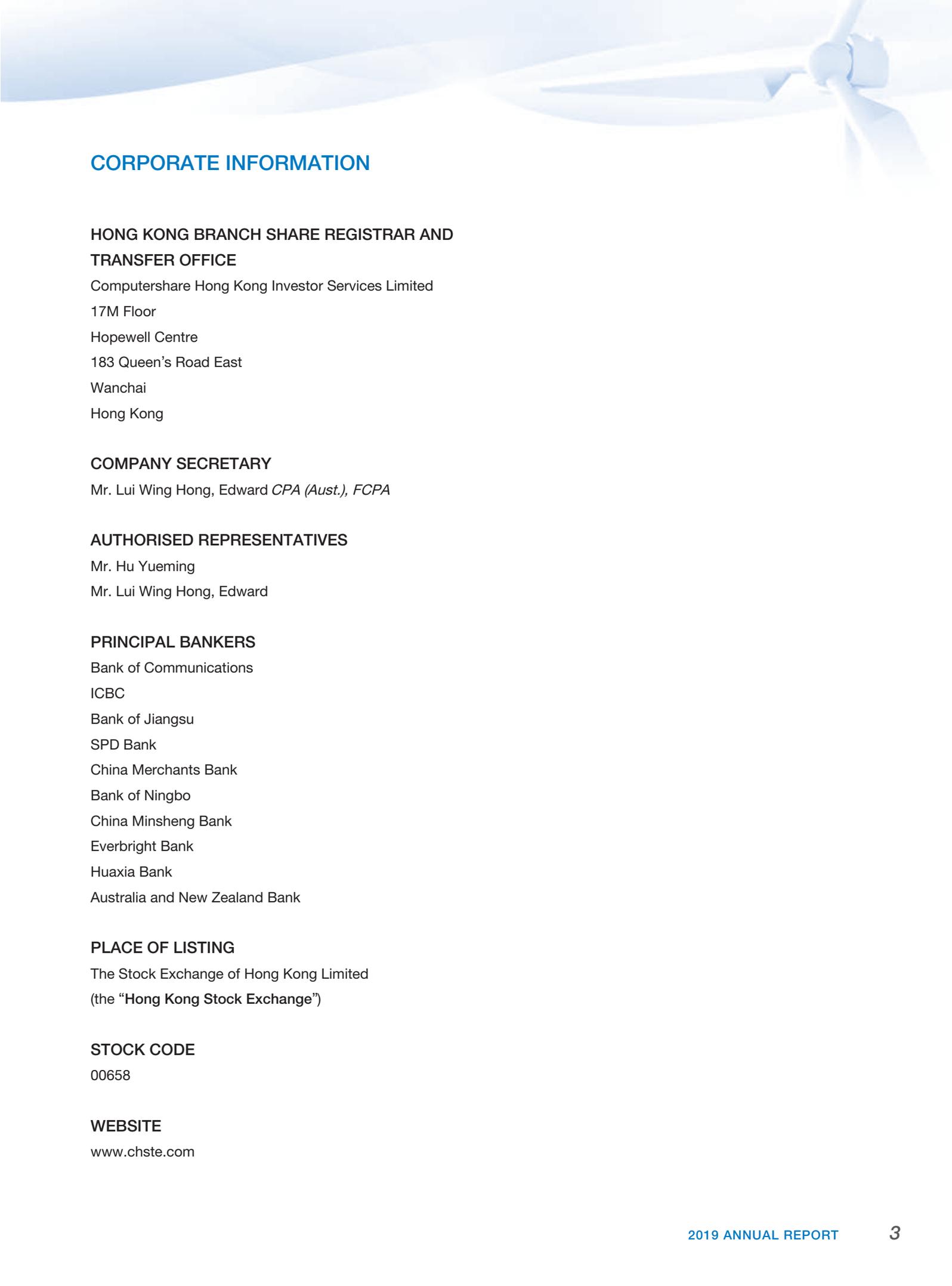
3rd Floor, Royal Bank House

24 Shedden Road

P.O. Box 1586

Grand Cayman KY1-1110

Cayman Islands

A large, stylized graphic of a wind turbine is positioned in the top right corner of the page, extending from the edge towards the center. The turbine is rendered in a light blue color, matching the overall theme of the document. It features three blades and a central hub, with the blades slightly curved. The background is a light blue gradient that transitions from a darker shade at the top to a lighter shade at the bottom.

## CORPORATE INFORMATION

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

### COMPANY SECRETARY

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

### AUTHORISED REPRESENTATIVES

Mr. Hu Yueming  
Mr. Lui Wing Hong, Edward

### PRINCIPAL BANKERS

Bank of Communications  
ICBC  
Bank of Jiangsu  
SPD Bank  
China Merchants Bank  
Bank of Ningbo  
China Minsheng Bank  
Everbright Bank  
Huaxia Bank  
Australia and New Zealand Bank

### PLACE OF LISTING

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

### STOCK CODE

00658

### WEBSITE

[www.chste.com](http://www.chste.com)

## FINANCIAL HIGHLIGHTS

	Year ended 31 December 2019 RMB' 000	Year ended 31 December 2018 RMB' 000	Change
<b>Continuing operations</b>			
Revenue from contracts with customers	9,722,896	8,203,500	18.5%
Gross profit	1,934,893	1,530,989	26.4%
<b>Continuing operations and discontinued operations</b>			
Profit/(loss) for the year attributable to owners of the Company	438,188	208,401	110.3%
– Continuing operations	367,426	282,805	29.9%
– Discontinued operations	70,762	(74,404)	N/A
Basic and diluted earnings per share (RMB)	0.268	0.128	109.4%
Proposed final dividend per share (HKD)	0.20	0.08	150.0%

	At 31 December 2019 RMB' 000	At 31 December 2018 RMB' 000	Change
Total assets	24,858,848	26,748,539	-7.1%
Total liabilities	13,529,450	15,883,275	-14.8%
Net assets	11,329,398	10,865,264	4.3%
Net assets per share (RMB)	6.9	6.6	4.5%
Gearing ratio* (%)	54.4	59.4	-5.0 percentage points

\* Gearing ratio = total liabilities/total assets

## FIVE-YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2019	2018	2017	2016	2015
	RMB' 000	RMB' 000	Restated* RMB' 000	RMB' 000	RMB' 000
<b>RESULTS</b>					
Revenue from contracts with customers	9,722,896	8,203,500	7,990,604	8,966,049	9,845,695
Profit for the year	417,611	206,472	352,816	1,059,435	1,002,897
Profit for the year attributable to owners of the Company	438,188	208,401	451,699	1,108,995	1,033,097
<b>ASSETS AND LIABILITIES</b>					
	As at 31 December				
	2019	2018	2017	2016	2015
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
Total assets	24,858,848	26,748,539	27,438,175	26,295,600	25,292,081
Total liabilities	(13,529,450)	(15,883,275)	(16,462,174)	(15,055,252)	(15,317,343)
	11,329,398	10,865,264	10,976,001	11,240,348	9,974,738
Attributable to:					
Owners of the Company	11,207,043	10,791,832	10,904,962	11,053,873	9,759,102
Non-controlling interests	122,355	73,432	71,039	186,475	215,636
	11,329,398	10,865,264	10,976,001	11,240,348	9,974,738

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



## CHAIRMAN'S STATEMENT

I am pleased to present the 2019 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the “Company” or “China High Speed Transmission”). For the year ended 31 December 2019 (the “Year”), the Company and its subsidiaries (collectively referred to as the “Group”) recorded sales revenue of approximately RMB9,722,896,000, representing an increase of approximately 18.5% from 2018. Profit attributable to owners of the Company was approximately RMB438,188,000, representing an increase of approximately 110.3% from 2018. China High Speed Transmission continued to lead domestic wind power equipment industry with its strong research, design and development as well as commitment to the provision of high quality, reliable and innovative products for customers. The Company also adjusted the business development strategies of the industrial gear transmission equipment industry to enhance its market competitiveness.

In 2019, Chinese economy remained stable although the complicated economic environment at home and abroad and the decelerated growth in global economy and trade. The national economy was generally stable, the development quality was steadily improved, and the macroeconomic indicators were in line with expected policy goals. China's GDP has reached nearly RMB100 trillion, representing an increase of 6.1% over the previous year, and the major expectations are well achieved.

In the wind milling industry, according to the Action Plan on Clean Energy Consumption (2018-2020) (《清潔能源消納行動計劃(2018-2020年)》), the national average utilization rate of wind power shall reach the international advanced level (striving to reach about 95%) in 2020, and the wind power curtailment rate shall be controlled at a reasonable level (striving to reach around 5%); the utilisation rates of photovoltaic power shall be higher than 95%, and the curtailment rates shall be lower than 5%. Judging from this indicator, China's wind and photovoltaic power generation has achieved its consumption target one year in advance in 2019.

The Group is a leading supplier of wind gear transmission equipment. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750kW, 1.5MW, 2MW, 3MW and 5MW wind power transmission equipment which have been provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level. The Group has also successfully developed and accumulated 6MW and 7MW wind power gear box with a technological level comparable to its international peers. In addition, as the global wind power gearbox market shows a trend of low wind speed and high power, in response to the development trend, the Group continued technological innovation and launched a new generation of 3.8MW high-power wind turbine gearboxes with high reliability, high efficiency, and low electricity costs. Through intelligent system upgrades, the safe and stable operation of the gearboxes throughout their life cycle is guaranteed, which improved the overall economic benefits of wind power.



## CHAIRMAN'S STATEMENT

In the past two years, due to the overcapacity of the equipment industry in China, the Group adjusted its development strategy for traditional industrial gear transmission equipment. First of all, with energy saving and environmental protection as the main line, the Group upgraded its heavy products relying on technological advantages. Meanwhile, it independently developed and manufactured standardized products, modular products and intelligent products with international competitiveness, promoted the change of sales strategy with products positioning with complete categories, clear levels and precise segmentation and market positioning, and vigorously developed new markets and expand new industries, in particular, comprehensively promoted product development and market expansion of standard gearboxes and industrial planetary gearboxes; meanwhile, the Group has also strengthened the provision and sale of components and system solutions to customers to assist customers to increase existing production efficiency without increasing capital expenditures, so as to maintain the Group's position as a major supplier in the traditional industrial transmission products market. During the Year, the 7800KW reducer was successfully developed and smoothly put into operation, which provided a strong boost for China to accelerate the comprehensive utilization of solid waste and achieve a green loop economy. At the same time, this gearbox can be equipped with NGC Gear-Sight 3000 intelligent interconnection monitoring technology to provide customers with life-cycle early warning maintenance services. With the concept of “modularization, intelligence, and standardization of parts” of the M series gearbox platform products, subsequent failure early warning and early fault diagnosis of the gearbox can be realized, and equipment maintenance and replacement of wearing parts are more predictable, targeted and faster, thereby further improving the efficiency and quality of aftermarket services, leaving customers with no worries and improving customer satisfaction.

The Company is an expert in global gearbox and transmission technology solutions. Its rail transportation products have been widely used in subway, tram, intercity, high-speed rail vehicles and locomotives, and have established long-term cooperative relationships with many well-known domestic and foreign manufacturers. The PDM470 gearbox independently developed by the Company has passed the preliminary inspection of the Montreal Metro project. In addition, the Company participated in the construction of the “Xiamen International Shipping Center Port Smart Logistics Platform Demonstration Project (廈門國際航運中心港口智慧物流平台示範工程)” by the Ministry of Transport. It has passed the acceptance in Xiamen last year. The complete set of drive system gearboxes of the rail container gantry cranes in the port yard of the multimodal transport service platform of the demonstration project adopted the Company's new generation of MHB series standard industrial gearboxes. The trial run has been successfully completed a few days ago, and the operating under all conditions performed well on site.



## CHAIRMAN'S STATEMENT

According to the wind power development plan under the “Thirteenth Five-Year Plan” released by the National Energy Administration, it is clear that wind curtailment will be effectively addressed by 2020. In addition, the National Development and Reform Commission and the National Energy Administration issued “The implementation plan for resolving curtailment of hydro power, wind power and photovoltaic power”, clarifying that the renewable energy power quota system should be implemented on an annual basis, and curtailment of hydro power, wind power and photovoltaic power should be effectively resolved nationwide by 2020. With significant improvements in wind power curtailment, the development of wind power in Northeastern, Northern and Northwestern China is expected to resume on a large scale, and newly installed capacity of domestic wind power is expected to continue its good growth momentum. At this stage, China’s wind power development has begun to shift from incremental replacement stage to stock replacement stage. The driving force for development has also shifted from policy-driven to market-driven. Under this trend, the focus of wind power development has changed to how to promote the evaluation era of the industry as soon as possible. The Group will continue to keep abreast of product market trends, provide customers with the highest quality products, the most exquisite technology and the most comprehensive services, improve product quality and economies of scale while fully expanding its international market share, thereby enabling the Group’s core business profitability to reach a new high.

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

**Hu Jichun**

*Chairman*

30 March 2020



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group is 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, the Group recorded sales revenue of approximately RMB9,722,896,000 in continuing operations (2018: RMB8,203,500,000), representing an increase of approximately 18.5% from 2018. The gross profit margin was approximately 19.9% (2018: 18.7%). Profit attributable to owners of the Company from continuing and discontinued operations was approximately RMB438,188,000 (2018: RMB208,401,000), representing an increase of 110.3% from 2018. Basic earnings per share amounted to RMB0.268 (2018: RMB0.128), representing an increase of 109.4% from 2018.

### 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 its strong research, design and development capabilities, the Group has a range of products including 750kW, 1.5MW, 2MW, 3MW and 5MW wind power transmission equipment which have been provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level and is well recognised by customers in general. In addition to the provision of diversified large wind power gear boxes to customers, the Group has also successfully developed and accumulated 6MW and 7MW wind power gear box with a technological level comparable to its international peers, thus enabling it to have the capability and technology to produce those products.

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

The wind gear transmission equipment is a major product that has been developed by the Group. During the Year, sales revenue of wind gear transmission equipment business increased by approximately 18.6% to approximately RMB8,178,999,000 (2018: RMB6,896,966,000) as compared with last year.



## MANAGEMENT DISCUSSION AND ANALYSIS

### 2. Industrial gear transmission equipment

#### *Enhanced market competitiveness through changes in production strategies and sales strategies*

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

In the past two years, the equipment industry of China has been affected by overcapacity, the Group adjusted the development strategy for traditional industrial gear transmission equipment. Above all, with the focus on energy-saving and environmentally-friendly products, the Group has upgraded the technology of the heavy products by the technology advantage, meanwhile, the Group has self-developed standardized, modular and intelligent products which are internationally competitive, to facilitate the change in sales strategies and explore new markets and new industries by the products positioning and market positioning with complete range, clear layers and precise subdivision. In particular, the Group made the product development and research and market explore of the standard gearbox and planetary gearbox, etc. At the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helping them enhance their current production efficiency without increasing capital expenditure, thereby maintaining the Group's position as a major supplier in the traditional industrial transmission product market.

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

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

During the Year, the industrial gear business segment generated sales revenue of approximately RMB1,486,917,000 for the Group (2018: RMB1,298,567,000), representing an increase of 14.5% over last year.



## MANAGEMENT DISCUSSION AND ANALYSIS

### LOCAL AND EXPORT SALES

During the Year, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Year, the overseas sales amounted to approximately RMB2,876,278,000 (2018: RMB2,803,381,000), representing an increase of 2.6% over last year. Overseas sales accounted for 29.6% to total sales (2018: 34.2%), representing a decrease of 4.6 percentage points over last year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Brazil.

### PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging its innovative technology and premium quality, the Group has obtained over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As of 31 December 2019, a total of 345 patents were granted by the State. In addition, 304 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2015 quality management system certification, ISO14001:2015 environmental management system certification, OHSAS18001: 2007 Occupational Health and Safety Management System Certification and Jiangsu Province Quality and Credit Graded AA certification. Wind power transmission gear products have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), China Quality Certification Centre (CQC), Technische Überwachungs-Verein (TÜV), DNV GL, UL, European Union's CE and ETL; industrial transmission gear products have been certified with the European Union's CE certificate, American Petroleum Institute (API) Specification IIE and Mining Products Safety Approval and Certification Center Co., Ltd. (MA); Rail transportation products have obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL PERFORMANCE (Continuing operations)

Sales revenue of the Group for the Year increased by 18.5% to approximately RMB9,722,896,000.

	Revenue		
	Year ended 31 December		
	2019	2018	Change
	RMB' 000	RMB' 000	
<b>Continuing operations</b>			
Wind Gear Transmission Equipment	8,178,999	6,896,966	18.6%
Industrial Gear Transmission Equipment	1,486,917	1,298,567	14.5%
Other Products	56,980	7,967	615.2%
<b>Total</b>	<b>9,722,896</b>	<b>8,203,500</b>	<b>18.5%</b>

### Revenue

During the Year, the Group's sales revenue was approximately RMB9,722,896,000, representing an increase of 18.5% as compared with last year. The increase was mainly due to the increase in the market demand of wind gear transmission equipment which led to the increase of delivery.

During the Year, sales revenue from wind gear transmission equipment was approximately RMB8,178,999,000 (2018: RMB6,896,966,000), representing an increase of 18.6% over last year; sales revenue from industrial gear transmission equipment was approximately RMB1,486,917,000 (2018: RMB1,298,567,000), representing an increase of 14.5% over last year.

### Gross profit margin and gross profit

During the Year, the Group's consolidated gross profit margin was approximately 19.9% (2018: 18.7%), representing an increase of 1.2 percentage points as compared with last year. Consolidated gross profit for the Year amounted to approximately RMB1,934,893,000 (2018: RMB1,530,989,000), representing an increase of 26.4% as compared with last year. During the Year, the increase in consolidated gross profit margin was due to the economies of scale. The increase in consolidated gross profit was mainly due to the increase in sales revenue and gross profit margin.

### Other income

During the Year, the Group's other income was approximately RMB182,307,000 (2018: RMB209,879,000), representing a decrease of 13.1% as compared with last year. Other income is mainly comprised of dividend income, interest income, government grants and income from sales of scraps and materials.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Other gains – net

During the Year, other net gains of approximately RMB64,543,000 (2018: RMB192,107,000), mainly comprised of net fair value gains on financial assets at FVPL, foreign exchange net gains, and net losses on disposal of property, plant and equipment.

### Selling and distribution expenses

During the Year, the Group's selling and distribution expenses were approximately RMB362,811,000 (2018: RMB292,946,000), representing an increase of 23.8% as compared with last year. Selling and distribution expenses are mainly comprised of product packaging expenses, transportation expenses, staff costs and business expenses. The percentage of selling and distribution expenses to sales revenue for the Year was 3.7% (2018: 3.6%), representing an increase of 0.1 percentage point as compared with last year.

### Administrative expenses

During the Year, the Group's administrative expenses were approximately RMB519,269,000 (2018: RMB494,546,000), representing an increase of 5.0% as compared with last year, which was mainly due to the increase in staff costs and depreciation expenses, and the expenses incurred for the acquisition of a subsidiary during the Year. The percentage of administrative expenses to sales revenue decreased by 0.7 percentage points to 5.3% as compared with last year.

### Research and development costs

During the Year, the Group's research and development costs amounted to approximately RMB394,961,000 (2018: RMB337,457,000), representing an increase of 17.0% as compared with last year, which was mainly due to the increased efforts put on research and development of new products.

### Net impairment losses on financial assets

During the Year, the net impairment losses on financial assets of the Group amounted to approximately RMB62,188,000 (2018: RMB57,059,000), which are comprised of impairment losses on trade and other receivables.

### Finance costs

During the Year, the Group's finance costs amounted to approximately RMB512,030,000 (2018: RMB630,963,000), representing a decrease of 18.8% as compared with last year, which was mainly due to the decrease in bank loans and medium-term notes during the Year.



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL RESOURCES AND LIQUIDITY

The equity attributable to owners of the Company for the year ended 31 December 2019 amounted to approximately RMB11,207,043,000 (2018: RMB10,791,832,000). The Group had total assets of approximately RMB24,858,848,000 (31 December 2018: RMB26,748,539,000), representing a decrease of 7.1% as compared with the beginning of the year. Total current assets were approximately RMB15,913,153,000 (31 December 2018: RMB17,994,929,000), representing a decrease of 11.6% as compared with the beginning of the year, which was mainly due to the decrease in trade receivables. Total non-current assets were approximately RMB8,945,695,000 (31 December 2018: RMB8,753,610,000), representing an increase of 2.2% as compared with the beginning of the year.

Total liabilities of the Group for the year ended 31 December 2019 were approximately RMB13,529,450,000 (31 December 2018: RMB15,883,275,000), representing a decrease of approximately RMB2,353,825,000 or 14.8%, as compared with the beginning of the year. Total current liabilities were approximately RMB12,554,837,000 (31 December 2018: RMB13,181,696,000), representing a decrease of 4.8% as compared with the beginning of the year. Total non-current liabilities were approximately RMB974,613,000 (31 December 2018: RMB2,701,579,000), representing a decrease of 63.9% as compared with the beginning of the year, which was mainly due to the transfer of the corporate bonds due within one year to current liabilities.

As of 31 December 2019, the net current assets of the Group were approximately RMB3,358,316,000 (31 December 2018: RMB4,813,233,000), representing a decrease of approximately RMB1,454,917,000 or 30.2%, as compared with the beginning of the year.

As of 31 December 2019, total cash and bank balances of the Group were approximately RMB5,318,455,000 (31 December 2018: RMB5,932,008,000), representing a decrease of approximately RMB613,553,000 or 10.3%, as compared with the beginning of the year. The cash and bank balances included pledged bank deposits of RMB2,642,560,000 (31 December 2018: RMB2,922,234,000) and structured bank deposits of RMB155,480,000 (31 December 2018: RMB947,150,000) included in financial assets at fair value through profit or loss.

As of 31 December 2019, the Group had total borrowings (including corporate bonds) of approximately RMB5,237,448,000 (31 December 2018: RMB7,372,957,000), representing a decrease of approximately RMB2,135,509,000 or 29.0%, as compared with that at the beginning of the year, of which borrowings within one year were RMB4,738,275,000 (31 December 2018: RMB4,960,387,000), accounting for approximately 90.5% (31 December 2018: 67.3%) of the total borrowings. The fixed or floating interest rates of the Group's borrowings for the Year ranged from 3.69% to 8.00% per annum.

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the net current assets of RMB3,358,316,000 as of 31 December 2019, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.



## MANAGEMENT DISCUSSION AND ANALYSIS

### Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) decreased from 59.4% as at 31 December 2018 to 54.4% as at 31 December 2019.

### Capital structure

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

The Group's cash and cash equivalents were mainly denominated in Renminbi and U.S. dollars. The Group has no foreign currency borrowings as of 31 December 2019.

During the Year, the Group's borrowings with fixed interest rates accounted for approximately 98.3% of total borrowings.

### PROSPECTS

In 2019, the global economy and trade grew at a lower rate amid complex domestic and foreign economic environments. Facing growing challenges and risks at home and abroad, the Chinese economy maintained a stable operation as a whole. Major macroeconomic indicators were within a reasonable range, the structural reform on the supply front continued, the resilience in development enhanced and there were more drivers for high quality development. In 2019, China's GDP was near RMB100 trillion, representing an increase of 6.1% over the previous year, which was in line with the expected target of 6% to 6.5% proposed at the beginning of the year.

Looking back to 2019, China has become the largest wind power market in the world. According to the data released by Bloomberg New Energy Finance, in 2019, the newly installed wind capacity in China has reached the second largest newly installed wind capacity in the world historically. The newly installed wind capacity in China was up to 28.9GW, increased by 37% over 2018. Among which, onshore wind capacity increased to 26.2GW and the growth was 36% whereas the offshore wind capacity increased to 2.7GW and the growth was 57%. According to the information of National Energy Administration, by the end of 2019, the installed wind power in China has reached 210 GW, of which the onshore cumulative installed wind power was 204 GW and the offshore cumulative installed wind power was 5.9 GW. According to the latest "Global Wind Energy Report", released by Global Wind Energy Council (GWEC), in 2019, the newly installed wind power in world has reached 60.4GW, increased by 19% over 2018. By the end of 2019, the total installed wind power in the world was 650GW, increased by 10% over last year. The role of offshore wind power has become increasingly important. In 2019, the offshore newly installed wind power was 6.1GW, which has created the highest in history, the proportion of offshore wind power over the all newly installed wind power is 10%.



## MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading supplier of wind gear transmission equipment, with large, diversified and overseas market development. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750kW, 1.5MW, 2MW, 3MW and 5MW wind power transmission equipment which can be provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level. The Group has also successfully developed and accumulated 6MW and 7MW wind power gear box with a technological level comparable to its international peers, thus enabling it to have the capability and technology to produce those products.

Currently, the Group continues to maintain a strong customer portfolio. The customers of wind power business include the major wind turbine manufacturers in the PRC, as well as the renowned international wind turbine manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy and Vestas, etc. With our quality products and good services, the Group has gained extensive recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the U.S., Germany, Singapore, Canada and India to support the sustainable development strategy of the Group. The Group strives to have closer communication and discussion with potential overseas customers and to grasp the opportunities in emerging markets by building a wind gear transmission equipment production base in industrial area in Sri City, India so as to enhance production capacity and to further diversify services for global customers.

Through adjustments in recent years, the Group continued to adhere to the development strategy on the wind power gear transmission equipment business, which is to strengthen industrial heavy equipment market advantage with the focus on energy-saving and environmentally-friendly products. By developing the standardized, modular and intelligent products which are internationally competitive, the Group actively explored the new markets and new industry applications of standard gearbox and planetary gear box and other industrial gear transmission equipment, built a intelligent application system and gave the products more added value and longer life cycle; at the same time, the Group adhered to the sustainable development strategy, increased its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helped them to enhance their current production efficiency without increasing capital expenditure, met different needs from different customers, thereby our Group is able to maintain its position as a major supplier in the traditional industrial transmission product market.

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



## MANAGEMENT DISCUSSION AND ANALYSIS

According to the wind power development plan under the “Thirteenth Five-Year Plan” released by the National Energy Administration, it is clear that wind curtailment will be effectively addressed by 2020. In addition, the National Development and Reform Commission and the National Energy Administration issued “The implementation plan for resolving curtailment of hydro power, wind power and photovoltaic power”, clarifying that the renewable energy power quota system should be implemented on an annual basis, and curtailment of hydro power, wind power and photovoltaic power should be effectively resolved nationwide by 2020. With significant improvements in wind power curtailment, the development of wind power in Northeastern, Northern and Northwestern China is expected to resume on a large scale, and newly installed capacity of domestic wind power is expected to continue its good growth momentum. The next two to three years will be a critical period for the development of the wind power industry, as can be seen from the intensive implementation of various policies on the wind power industry in 2019. Therefore, in the future, the wind power industry will gradually change from the policy-oriented development mode to the market-oriented development mode. Enterprises should also follow the development trend of the industry, continuously improve their technical and legal risk management standards, and ensure that projects are built and operated in accordance with the law and with high quality. The Group will adhere to the four core competitive strengths of “innovative thinking, zero defects, professional services, and customer orientation”, to outperform the average market development by the visionary market strategy, continue to invest in innovation, advanced manufacturing technologies management concept of zero defects, inject high-level investments in human resources and build an excellent corporate culture, etc. Thus to become a stable and sustainable leader of the industry.

### PLEDGE OF ASSETS

Save as disclosed in note 41 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2019.

### CONTINGENT LIABILITIES

Save as disclosed in note 39 to the consolidated financial statements, as at 31 December 2019, the Directors were not aware of any other material contingent liabilities.

### COMMITMENTS

As at 31 December 2019, the Group had capital commitments contracted for but not provided in the consolidated financial statements in respect of plant and machinery, and outstanding commitments payable under non-cancellable operating lease in respect of rented land and office equipment of approximately RMB237,046,000 and RMB6,900,000 respectively (31 December 2018: RMB290,208,000 and RMB3,210,000). Details are set out in notes 40 to the consolidated financial statement.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FOREIGN EXCHANGE RISK

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

The net gain of foreign exchange (included in "other gains – net" and "finance income and costs") recorded by the Group during the Year was approximately RMB26,231,000 (2018: net gain of RMB25,621,000), including gains from our export business denominated in U.S. dollars due to the fluctuation of Renminbi against U.S. dollars during the Year.

The Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign exchange risk management measures and strategies, with a view to reducing its exposures to exchange rate risks in 2020.

### INTEREST RATE RISK

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

### SIGNIFICANT INVESTMENT HELD DURING THE YEAR

Set out below is the significant investment held by the Group which was classified as financial assets at fair value through other comprehensive income as at 31 December 2019:

Name of the investee company	Percentage of equity owned by the Group	Cost of investment (RMB'000)	Fair value as at 31 December 2019 (RMB'000)	Accumulated change in unrealized gains in fair value (RMB'000)	Dividends received/receivable for the Year (RMB'000)
Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership)* (浙江浙商產融投資合夥企業(有限合夥)) (formerly known as "Zhejiang Zheshang Chanrong Share Investment Fund LLP") 浙江浙商產融股權投資基金合夥企業(有限合夥) (note)	6.47%	2,000,000	2,027,647	27,647	–



## MANAGEMENT DISCUSSION AND ANALYSIS

*Note:*

Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership)\* (浙江浙商產融投資合夥企業(有限合夥)), a limited partnership established and registered under the PRC laws in accordance with a limited partnership agreement, is primarily engaged in, among other things, private equity investment, investment management and investment consultation.

The Directors believe that the future performance of the significant investments held by the Group in future will be affected by the overall economic environment, market condition and the business performance of the investee company.

### **SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE YEAR**

The Group did not conduct significant acquisition or disposal of subsidiaries and associates during the Year.

### **FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET**

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



## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of Directors and senior management as of 31 December 2019 are listed as follows:

### EXECUTIVE DIRECTORS

**Mr. Hu Jichun**, aged 40, is the Chairman of the Board, an executive Director, the Chief Executive Officer and the chairman of the Nomination Committee of the Company. He is a holder of postgraduate degree. Mr. Hu graduated from Shanghai University in Control Theory and Control Engineering and obtained a Master's degree in Engineering in 2004. Mr. Hu has been served as the vice general manager of Nanjing E-crystal Energy Co., Ltd. since January 2012 and an executive Director of the Company since June 2015. Also, Mr. Hu has been served as a director of NGC since November 2016 and the chairman and the general manager of Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("**NGC**" or "**Nanjing Drive**") from December 2016 to May 2019. He has been served as the president of NGC since January 2017. Mr. Hu also holds directorship in certain subsidiaries of the Group, including major subsidiaries such as Nanjing High Speed Gear Manufacturing Co., Ltd. ("**Nanjing High Speed**"), Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("**Nanjing High Accurate**"), NGC Transmission Equipment (America), Inc. ("**NGC (US)**") and China Transmission Holdings Limited ("**China Transmission Holdings**"). Mr. Hu is the son of Mr. Hu Yueming, an executive Director and an authorized representative of the Company ("**Authorized Representative**") under Rule 3.05 of the Listing Rules.

**Mr. Hu Yueming**, aged 70, is an executive Director and an Authorized Representative of the Company. Mr. Hu is a university graduate and graduated from Fudan University majoring in laser technology in 1977. Mr. Hu is a senior engineer. He has more than 30 years of experience in the management of machinery and industrial enterprises and has served as the head of various state-owned enterprises such as Nanjing Engineering Equipment Factory (南京工藝裝備廠) and general manager of various foreign invested enterprises including Nanjing Atlas Copco Construction Machinery Ltd. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. He has been served as a director of NGC since March 2007. From March 2007 to December 2016 and since May 2019, he served as the chairman and the general manager of NGC. Mr. Hu also holds directorship in certain subsidiaries of the Group. Mr. Hu is an expert on mechanical transmission equipment technology and business management. He is also the vice president of the China New Energy Generation Network (中國新能源發電網), a council member of China General Machine Components Industry Association (中國機械通用零部件工業協會), the vice chairman of Gear Manufacturers Association (齒輪專業協會) of China General Machine Components Industry Association (中國機械通用零部件工業協會) and chairman of Nanjing Renewable Energy Association (南京可再生能源協會). He has been awarded the "National May 1 Labour Medal" (全國五一勞動獎章) and title of "The 4th Outstanding Entrepreneur of the Machinery Industry" (第四屆全國機械工業明星企業家), etc. Mr. Hu Yueming is the father of Mr. Hu Jichun, the Chairman of the Board, an executive Director, the Chief Executive Officer and the chairman of the Nomination Committee of the Company.

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Chen Yongdao**, aged 57, is an executive Director and a member of the Remuneration Committee of the Company. Mr. Chen is a university graduate. He obtained a bachelor's degree from Jiangsu Institute of Technology majoring in metal material and heat treatment in 1983 and a master's degree from Nanjing University of Science and Technology majoring in engineering in 2007. He is a senior engineer. He served as the deputy head of the inspection and gauging section, head of the production allocation section of the factory and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and the deputy general manager of NGC since March 2007. He has served as the vice president of NGC since January 2017. Mr. Chen also holds directorship in certain subsidiaries of the Group, including major subsidiaries such as Nanjing High Accurate, Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("Nanjing Dongalloy"), Nanjing Ningkai Mechanical Co., Ltd. ("Nanjing Ningkai") and China Transmission Holdings. Mr. Chen is an expert on heat treatment of metal material and has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment and enterprise management for over 30 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

**Mr. Wang Zhengbing**, aged 48, is an executive Director of the Company. He is a holder of university degree. He graduated from Zhejiang University and obtained a Bachelor's degree in Metal Material & Heat Treatment in 1993 and a Master's degree in Engineering in Nanjing University of Science and Technology in 2011 as a senior engineer. Mr. Wang has joined Nanjing High Speed Gear Factory since August 1993 and held various positions, including deputy director and director of the workshop since January 1999. He has served as the vice general manager of Nanjing High Speed since July 2003. He has served as an executive Director of the Company since June 2015. Mr. Wang has served as a director, the vice president of NGC and the general manager of Industrial Division of NGC since November 2016 and January 2017, respectively. Mr. Wang also holds directorship in certain subsidiaries of the Group, including major subsidiaries such as Nanjing High Speed, Nanjing High Accurate, Nanjing Dongalloy, Nanjing Ningkai and China Transmission Holdings.

**Mr. Zhou Zhijin**, aged 47, is an executive Director of the Company. He graduated from Nanjing Industrial School in 1991 and joined Nanjing High Speed Gear Factory in August 1991. Mr. Zhou was appointed as vice director of personnel department in January 1999. He was promoted as deputy director of human resource department in September 2001. He served as the assistant to general manager of Nanjing High Speed and office head since July 2003. He has served as the vice general manager of Nanjing High Speed since July 2006. He has served as an executive Director of the Company since June 2015. Mr. Zhou has been served as a director of NGC since November 2016. He has served as the vice president of NGC since January 2017. Mr. Zhou also holds directorship in certain subsidiaries of the Group, including major subsidiaries such as Nanjing High Speed, Nanjing Ningkai and China Transmission Holdings.



## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

**Ms. Zheng Qing**, aged 52, is an executive Director of the Company and a fellow member of the Association of Chartered Certified Accountants. She joined the Company as an executive Director on 1 December 2016. She graduated from Nanjing Audit University in 1989. She obtained a Bachelor's (Honours) degree in Applied Accounting from Oxford Brookes University in 2005 and further obtained a Master degree in Business Administration from the Chinese University of Hong Kong in 2012.

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

Since June 2015, Ms. Zheng has been the financial controller of Fullshare Holdings Limited ("Fullshare Holdings", Stock Code: 607).

**Mr. Gu Xiaobin**, aged 51, is an executive Director of the Company. He is a holder of university degree. He graduated from Beihang University majoring in material science and engineering in July 1991. He joined AVIC Chengdu Engine (Group) in September 1991, and was engaged in technology, sales and foreign trade, and served as an assistant to the head of the foreign trade division. He joined General Electric (China) Co., Ltd in December 1996 and held various positions, including project manager of purchase department in China of energy industry group, quality engineer, Six Sigma Master Black Belt, purchasing general manager in China of energy group, and purchasing general manager in Asia of renewable energy group, etc. Mr. Gu joined the Group in October 2017, and serves as a director and the chief operating officer of NGC, and concurrently as the general manager of wind power business department and overseas business department of NGC. Mr. Gu has been an executive Director of the Company since May 2019. Mr. Gu also holds directorships in certain subsidiaries of the Group.

### NON-EXECUTIVE DIRECTOR

**Mr. Yuen Chi Ping**, aged 40, is a non-executive Director of the Company and he joined the Company as a non-executive Director on 1 December 2016. He has been a qualified solicitor in Hong Kong since 2004 and in England and Wales since 2010. Mr. Yuen has over 12 years of practicing experience and has extensive experience in corporate law, China-related public and private mergers and acquisitions, and capital market transactions. Mr. Yuen obtained his Bachelor's degree in Laws in November 2001 from the University of Hong Kong and completed the PCLL programme in June 2002. Afterwards, Mr. Yuen undertook his traineeship and worked as a lawyer in various international law firms. Mr. Yuen worked as a special counsel in the Shanghai office of Baker & McKenzie from 2007 to 2014, responsible for the firm's securities practice in Shanghai.



## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yuen was appointed as the chief operating officer of Fullshare Holdings from October 2014 to March 2018. Since July 2016, Mr. Yuen has been a non-executive director of Hin Sang Group (International) Holding Co. Ltd. (stock code: 6893). Since September 2016, Mr. Yuen has been a chief executive officer and executive director of Applied Development Holdings Limited (stock code: 519). From August 2018 to August 2019, Mr. Yuen has been an independent non-executive director of Sun Cheong Creative Development Holdings Limited (stock code: 1781). Since April 2017, Mr. Yuen has acted as a director of Pok Oi Hospital (a charity organisation) and since April 2018, Mr. Yuen also has been appointed as an executive director, the vice chairman of the board and the chief executive officer of LongiTech Smart Energy Holding Limited (stock code: 1281).

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**Dr. Chan Yau Ching**, Bob, aged 57, is a non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company and joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a Doctorate degree in Finance. Dr. Chan graduated from the Chinese University of Hong Kong and obtained a Bachelor's degree in Business Administration in 1984. Dr. Chan further obtained a Master degree in Business Administration from the University of Wisconsin-Madison, the U.S. in 1986, and a Doctorate degree in Finance from Purdue University, the U.S. in 1994. Dr. Chan is a member of the Chartered Financial Analyst Institution and the Hong Kong Society of Financial Analysts. Since April 2009, Dr. Chan has been a licensed representative/responsible officer engaging in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

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

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

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



## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

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

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

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

**Ms. Jiang Jianhua**, aged 55, is an independent non-executive Director of the Company and she joined the Company as an independent non-executive Director on 31 December 2012. She is a holder of Ph. D. degree in Management. Ms. Jiang graduated from Shanghai University of Finance and Economics with a bachelor degree, majoring in international finance, in July 1986. From July 1996 to June 1999, she studied at Tianjin University of Finance and Economics and received a Master degree of management. She studied and obtained a Doctor degree of management from Nanjing Agricultural University from September 2006 to December 2008.

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

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

## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

**Mr. Jiang Xihe**, aged 61, is an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 8 June 2007. He is a Doctor in accountancy. He graduated from the Central University of Finance and Economics (中央財經大學) majoring in accountancy in June 1990. He obtained professional accounting qualification recognized in the PRC in July 1999. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association and a standing member of Jiangsu Accounting Association.

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

Mr. Jiang is also an independent director of Hongbaoli Group Co., Ltd. (Stock Code: 002165, a company listed on the Shenzhen Stock Exchange), Nanjing Yunhai Special Metals Co., Ltd. (Stock Code: 002182, a company listed on the Shenzhen Stock Exchange), Jiangsu Lanfeng Bio-chemical Co., Ltd (Stock Code: 002513, a company listed on the Shenzhen Stock Exchange) and Anhui Hualing Kitchen Equipment Co., Ltd. (Stock Code: 430582, a company listed on the New Third Board of Shenzhen Stock Exchange).

**Mr. Nathan Yu Li**, aged 48, is an independent non-executive Director, a member of the Audit Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a Master degree in Science and a Master degree in Business Administration.

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

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



## BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

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

### SENIOR MANAGEMENT

**Mr. Lui Wing Hong, Edward**, aged 57, is a chief financial officer and company secretary and an authorized representative of the Company. He graduated from York University with a Bachelor of Arts degree majoring in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is a qualified accountant, associate member of the Australian Society of Certified Practising Accountants and a fellow member of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Company in June 2006 and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lui is also a director of China Transmission Holdings, a major subsidiary of the Group.

**Ms. Zhou Jingjia**, aged 56, is the financial controller of NGC. She graduated from Suzhou University majoring in accounting and is a member of the Chinese Institute of Certified Public Accountants and a qualified accountant. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. In January 2006, Ms. Zhou was transferred from Nanjing Atlas Copco Construction Machinery Ltd. to Atlas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the regional manager of certain production companies of the Atlas Copco Group in China and was responsible for overseeing the accounting departments. Ms. Zhou joined the Group in July 2006. She became a director of NGC in March 2007. Ms. Zhou has been the vice president of NGC since January 2017. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including major subsidiaries such as Nanjing High Speed, Nanjing High Accurate, NGC (US) and China Transmission Holdings.



## DIRECTORS' REPORT

The Board is pleased to present the Directors' report (the "Directors' Report") and the audited consolidated financial statements of the Group for the year ended 31 December 2019.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

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

The Group has complied with relevant PRC laws and regulations relating to environment protection, and has operated and implemented the relevant requirements of ISO14001 environment management system. The Company has strictly followed the laws and regulations requirements, such as Environmental Protection Law of the PRC and The Cleaner Production Promotion Law of the PRC, and has established environment protection systems to ensure legal treatment and disposal of various types of emissions, and regularly submits environment protection statistics to relevant environmental protection authority. The Group conducts construction of new projects according to the latest national standards of environmental protection, engages design institute with Grade A qualification, experts in the industry, professors in universities, professional third-party service organizations, etc. to design the environmental protection plans, and conscientiously implements the concept of "three concurrents", namely concurrent design, concurrent construction and concurrent acceptance, to ensure the principle of the problems encountered will be solved immediately, no procrastination, no repetition, no waste, and reduce the unnecessary carbon emissions. In respect of past projects, the Company also put considerable human and financial resources to conduct inspections and improvements. During the Year, the discharge and disposal of various types of waste of the Group met the relevant requirements of environmental protection authority. The Group always pays close attention to the development trend of environmental protection equipment at home and abroad, seeks for environmental protection equipment and facilities suitable for its own development, and continues to reduce the impact on the atmosphere, water and soil.



## DIRECTORS' REPORT

Nanjing High Speed has obtained the ISO14001 certification every year since 2008, passed the Environmental-Friendly Enterprise Assessment organized by Nanjing Environmental Protection Agency in the end of 2012 and passed the Clean Production Enterprise Assessment in the end of 2013. The Company established the duties of environmental protection for staff at all levels, and established emergency response plans for various types of environmental accidents and regularly conducts drills. At the same time, through the regular inspection of each responsible unit in the production process and the irregular spot check in cooperation with the supervision and management department, to ensure the implementation of various environmental protection systems and to really penetrate the work of environmental protection into the Company's production operation management. While our business grows, we will improve the Company's contribution to environmental protection.

The Group maintains good relationships with our clients and suppliers.

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

### KEY RISKS AND UNCERTAINTIES

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

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

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



## DIRECTORS' REPORT

### IMPORTANT EVENTS AFTER THE REPORTING YEAR

Save as disclosed in note 45 to the consolidated financial statements, there are no other important events occurred subsequent to 31 December 2019.

### OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2019 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 56 to 58 of this annual report.

### FINAL DIVIDEND

The Board recommended the payment of a final dividend of HKD0.20 (2018: HKD0.08) (tax inclusive) per ordinary share for the year ended 31 December 2019, amounting to approximately HKD327,058,000 in aggregate, by the Company to the shareholders of the Company. The proposed final dividend is expected to be paid to shareholders of the Company on 12 June 2020. The proposed final dividend will be paid subject to approval of shareholders of the Company at the forthcoming annual general meeting.

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

### DIVIDEND POLICY

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

### DISTRIBUTABLE RESERVE

The distributable reserve of the Company for the year ended 31 December 2019 was approximately RMB4,180,179,000 (2018: approximately RMB4,262,478,000).

### FIVE-YEAR FINANCIAL SUMMARY

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



## **DIRECTORS' REPORT**

### **PROPERTY, PLANT AND EQUIPMENT**

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

### **SHARE CAPITAL**

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

### **EQUITY-LINKED AGREEMENTS**

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

### **BORROWINGS**

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

### **TAXATION**

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

### **DONATION EXPENDITURE**

During the Year, the donation expenditure of the Group was approximately RMB573,000 (2018: RMB1,249,000).

### **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

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

### **SHARE OPTION SCHEME**

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

### **MAJOR SUPPLIERS AND CUSTOMERS**

During the Year, the purchase amount (not of a capital nature) from the Group's top five suppliers and largest supplier accounted for approximately 36.0% and 7.7% of our total purchase amount respectively. During the Year, revenue from sales of goods to the Group's top five customers and largest customer accounted for approximately 64.9% and 30.7% of our total revenue from sales of goods respectively. All transactions between the Group and relevant suppliers and customers were carried out on normal commercial terms.

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

## DIRECTORS' REPORT

### DIRECTORS' SERVICE CONTRACTS

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

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

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

### DIRECTORS AND THEIR TERMS

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

#### Executive Directors:

Mr. Hu Jichun ( <i>Chairman and Chief Executive Officer</i> )	Three years from the date of his re-election on 18 May 2018, and was appointed as the Chairman of the Board on 24 May 2019
Mr. Hu Yueming	Three years from the date of his re-election on 24 May 2019, and was re-designated from non-executive Director to executive Director and relinquished his position as the Chairman of the Board
Mr. Chen Yongdao	Three years from the date of his re-election on 24 May 2019
Mr. Wang Zhengbing	Three years from the date of his re-election on 24 May 2019
Mr. Zhou Zhijin	Three years from the date of his re-election on 18 May 2018
Ms. Zheng Qing	Three years from the date of her re-election on 18 May 2018
Mr. Gu Xiaobin	Appointed on 24 May 2019

#### Non-executive Director:

Mr. Yuen Chi Ping	Three years from the date of his re-election on 24 May 2019
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#### Independent Non-executive Directors:

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



## DIRECTORS' REPORT

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

The biographies of the Directors as of 31 December 2019 are set out on pages 20 to 26 of this annual report.

### DETAILS OF THE EMOLUMENTS

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

### EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2019, the Group employed approximately 5,962 employees (2018: 5,588) in continuing operations. Staff cost in continuing operations of the Group for the Year approximated to RMB1,359,689,000 (2018: RMB1,253,724,000). The cost included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

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

The salary levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial performance. In addition to salaries, the Group provides housing allowances to some of its employees. The Group also offers incentive programmes to encourage its employees to take initiatives and rewards employees who have made valuable contributions or achieved technical breakthroughs.

The Group's employees are rewarded for their creativity achievements in technologies and technical skills, management of information, product quality and enterprise management.

### PENSION SCHEME

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



## DIRECTORS' REPORT

### HUMAN RESOURCES POLICY

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

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

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

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the Directors' service contracts and letters of appointment disclosed above, no transactions, arrangements or contracts of significance to which the Company or its subsidiaries was a party and in which a Director or an entity related to a Director had a material interest, whether directly or indirectly, subsisted on 31 December 2019 or at any time during the Year.

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

As at 31 December 2019, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange, pursuant to the requirements relating to securities transactions by the Directors contained in the Listing Rules.

## DIRECTORS' REPORT

As of 31 December 2019, none of the Directors and chief executives of the Company or any of their associates (as defined in the Listing Rules) had any interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO). None of the Directors and chief executives of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

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

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

As of 31 December 2019, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

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



## DIRECTORS' REPORT

Note 1: Five Seasons, a company incorporated in the British Virgin Islands, is wholly-owned by Fullshare Holdings (stock code: 607), while the issued share capital of Fullshare Holdings is owned as to 45.05% by Magnolia Wealth, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Ji. Accordingly, Fullshare Holdings, Magnolia Wealth and Mr. Ji are considered to have interests in 1,208,577,693 shares of the Company, representing approximately 73.91% of the issued shares of the Company.

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

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

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2019, there was no other person, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

### INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

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

### CONNECTED TRANSACTIONS

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

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

### CHANGE OF AUDITOR

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



## DIRECTORS' REPORT

At the extraordinary general meeting held on 3 January 2019, the shareholders of the Company passed a special resolution to remove EY as the auditor of the Group, and passed an ordinary resolution to appoint PricewaterhouseCoopers (“PricewaterhouseCoopers”) as the new auditor of the Group with immediate effect and to hold office until the conclusion of the annual general meeting of the Company held on 24 May 2019 and authorise the Board of the Company to fix its remuneration.

As the Board took the view that it would be in the best interests of the Company and its shareholders to appoint the same auditor as the one engaged by Fullshare Holdings, PricewaterhouseCoopers resigned as auditor of the Group with effect from 11 December 2019. The Board appointed Baker Tilly Hong Kong Limited (“Baker Tilly”) as the new auditor of the Group on 14 January 2020 to fill the vacancy following the resignation of PricewaterhouseCoopers and to hold office until the conclusion of the next annual general meeting of the Company.

Save as disclosed above, the Company did not change its auditor in the past three years. The consolidated financial statements of the Group for the year ended 31 December 2019 has been audited by Baker Tilly.

### MATERIAL LITIGATIONS AND ARBITRATIONS

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

### PERMITTED INDEMNITY PROVISION

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

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

### MANAGEMENT CONTRACTS

As of 31 December 2019, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

### TAX RELIEF AND EXEMPTION

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

### PRE-EMPTION RIGHTS

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



## DIRECTORS' REPORT

### SUFFICIENT PUBLIC FLOAT

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

By order of the Board

**Hu Jichun**

*Chairman*

Hong Kong

30 March 2020



## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE PRACTICES

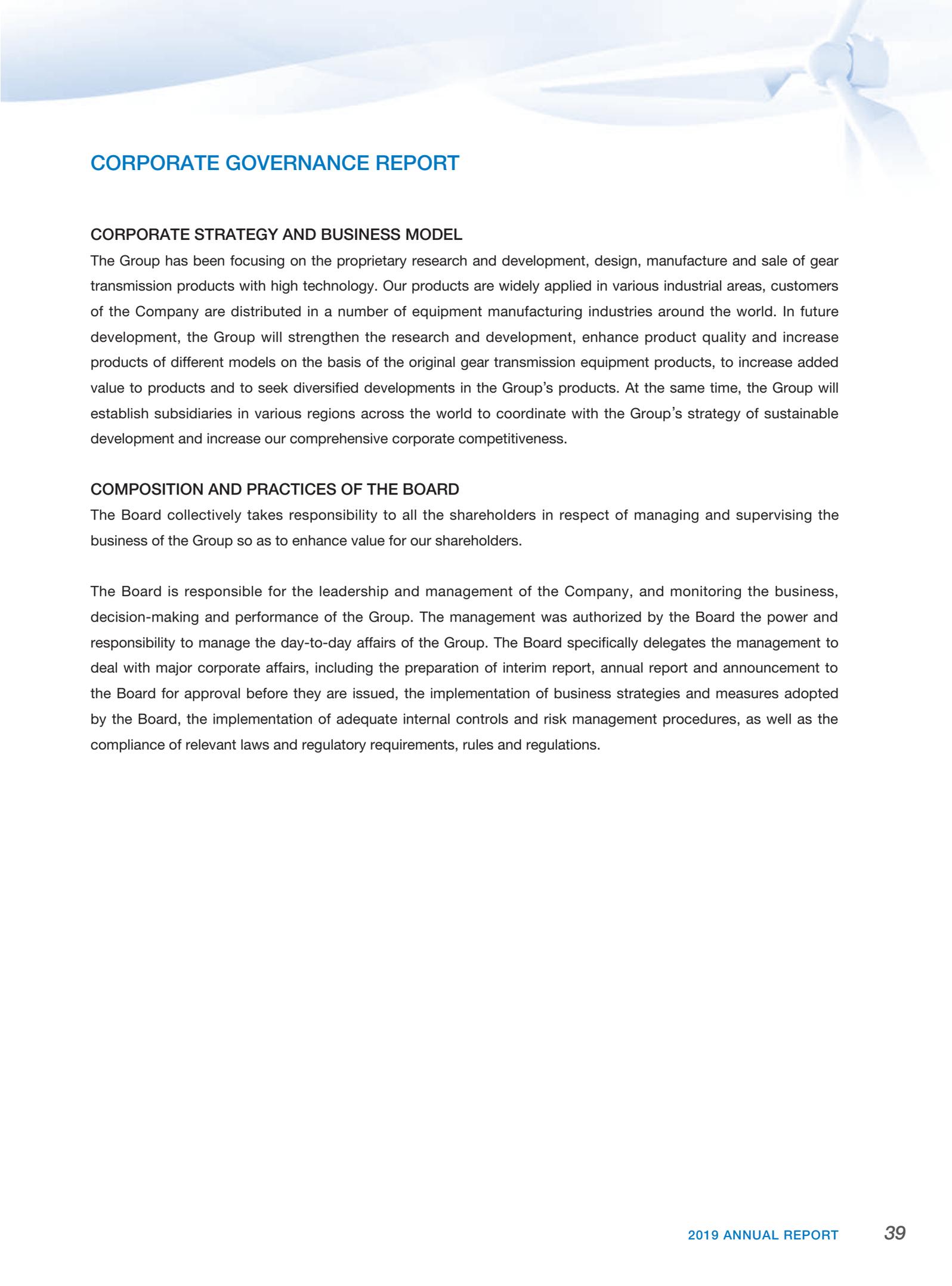
The Board recognizes the importance of a good corporate governance to a listed company. The Company is committed to achieving high standards of corporate governance in the best interest of the shareholders of the Company. This report is made to describe the practices of corporate governance of the Group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

During the year ended 31 December 2019, the Company has complied with the code provisions set out in the Corporate Governance Code, except for the deviation from (a) code provision A.2.1 which states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual; (b) code provision A.5.1 which states that the chairman of the nomination committee should be the chairman of the board or an independent non-executive director; and (c) code provision A.6.7 which states that independent non-executive directors and other non-executive directors should attend general meetings of shareholders of the Company.

Since 24 May 2019, Mr. Hu Yueming has been re-designated from a non-executive Director to an executive Director and has relinquished his position as the Chairman of the Board. On the same day, Mr. Hu Jichun, an executive Director and the chief executive officer of the Company, has been appointed as the Chairman of the Board. The Board considers that vesting the roles of both Chairman of the Board and Chief Executive Officer in Mr. Hu Jichun is beneficial to the business development and management of the Group, enabling the Company to formulate and implement decisions promptly and efficiently while the balance of functions and power will not be impaired.

Since 24 May 2019, Mr. Hu Yueming has ceased to be the Chairman of the Board, but remained as the chairman of the nomination committee of the Company until 23 August 2019, who was replaced by Mr. Hu Jichun, the Chairman of the Board. The Board considers that since Mr. Hu Yueming has been the chairman of the nomination committee from the establishment of nomination committee of the Company from 1 April 2012 to 23 August 2019, the experience and relationship accumulated by him can make it more effective for the Company to look for talents.

During the Year, except for Mr. Yuen Chi Ping, a non-executive Director, was absent from the 2018 annual general meeting of the Company held on 24 May 2019 due to other important matters, all other non-executive Directors, all independent non-executive Directors, some executive Directors, the then Chairman of the Board and the chairman of the nomination committee, the chairman of the audit committee, the chairman of the remuneration committee and external auditors of the Company have attended such annual general meeting.

A large, light blue, semi-transparent image of a wind turbine is positioned in the upper right corner of the page, extending towards the center. The turbine's blades are visible, and it appears to be part of a larger graphic design.

## CORPORATE GOVERNANCE REPORT

### **CORPORATE STRATEGY AND BUSINESS MODEL**

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

### **COMPOSITION AND PRACTICES OF THE BOARD**

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

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

## CORPORATE GOVERNANCE REPORT

The Board comprises twelve Directors, including seven executive Directors, one non-executive Director and four independent non-executive Directors. The Board held four meetings during the Year. Each of the Directors and members of all committees and their attendance at the meetings were as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	2018 Annual General Meeting
<b>No. of meetings held</b>	4	3	2	2	1
<b>Executive Directors</b>					
Mr. Hu Jichun (Chairman and Chief Executive Officer)	4/4			0/0	0/1
Mr. Hu Yueming	4/4			2/2	1/1
Mr. Chen Yongdao	4/4		2/2		0/1
Mr. Wang Zhengbing	4/4				1/1
Mr. Zhou Zhijin	4/4				1/1
Ms. Zheng Qing	4/4				0/1
Mr. Gu Xiaobin (Appointed on 24 May 2019)	2/2				0/1
<b>Non-executive Director</b>					
Mr. Yuen Chi Ping	3/4				0/1
<b>Independent non-executive Directors</b>					
Dr. Chan Yau Ching, Bob	4/4	3/3	2/2		1/1
Ms. Jiang Jianhua	4/4				1/1
Mr. Jiang Xihe	4/4	3/3	2/2	2/2	1/1
Mr. Nathan Yu Li	4/4	3/3		2/2	1/1

The biographies of each of Directors are set out in the “Biographies of Directors and Senior Management” on pages 20 to 26 in this annual report.

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

## CORPORATE GOVERNANCE REPORT

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

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

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

The service term of the current non-executive Director and independent non-executive Directors are set out in the section entitled “DIRECTORS AND THEIR TERMS” on page 31 of this annual report.

### EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

All the five highest paid individuals of the Group during the Year are Directors, details of their emoluments are set out in notes 9 and 47 to the consolidated financial statements.

The emoluments of the senior management of the Group (other than the Directors) whose profiles are included in the “Biographies of Directors and Senior Management” section of this annual report on page 26 were within the following band:

	<b>No. of employees</b>
RMB2,500,001 to RMB3,000,000	2



## CORPORATE GOVERNANCE REPORT

### AUDIT COMMITTEE

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

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

During the Year, the audit committee (i) reviewed the internal control review reports, and reviewed the annual report for the year 2018 and the interim report for the year 2019 of the Company and report the review conclusions to the Board; (ii) made recommendations to the Board in respect of the change of external auditors; (iii) reviewed the independence of external auditors; and (iv) considered and approved the external auditor's remuneration and letter of engagement for the year 2018.

During the Year, the numbers of meetings held by the audit committee and the attendance record of each member of the committee are set out in the section entitled "Composition and Practices of the Board" on page 40 of this annual report.

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

### REMUNERATION COMMITTEE

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

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



## CORPORATE GOVERNANCE REPORT

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

During the Year, the number of meetings held by the remuneration committee and the attendance record of each member of the committee are set out in the section entitled “Composition and Practices of the Board” on page 40 of this annual report.

### NOMINATION COMMITTEE

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

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

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

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

During the Year, the numbers of meetings held by the nomination committee and the attendance record of each member of the committee are set out in the section entitled “Composition and Practices of the Board” on page 40 of this annual report.



## CORPORATE GOVERNANCE REPORT

### CORPORATE GOVERNANCE FUNCTION

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

- (i) to develop and review the Group's corporate governance policy and practices and propose in this regard;
- (ii) to review and monitor the training and ongoing professional development of the Directors and senior management;
- (iii) to review and monitor the compliance of the Group's policy and practice with all laws and regulations, if applicable;
- (iv) to develop, review and monitor the code of conduct and compliance guidance (if any) applicable for all employees of the Group and Directors; and
- (v) to review the compliance of the Group with the disclosure requirements on corporate governance code and corporate governance report.

### MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2019. The Company will continue to ensure the compliance with the Model Code.

### COMPANY SECRETARY

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

### ONGOING PROFESSIONAL DEVELOPMENT

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

## CORPORATE GOVERNANCE REPORT

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

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

	Readings on updates and materials on business, operation and/or corporate governance affair	Lectures/seminars on business/director's responsibilities attended or participated
<b>Executive Directors</b>		
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 (Appointed on 24 May 2019)	✓	✓
<b>Non-executive Director</b>		
Mr. Yuen Chi Ping	✓	✓
<b>Independent non-executive Directors</b>		
Dr. Chan Yau Ching, Bob	✓	✓
Ms. Jiang Jianhua	✓	✓
Mr. Jiang Xihe	✓	✓
Mr. Nathan Yu Li	✓	✓



## CORPORATE GOVERNANCE REPORT

### REMUNERATION OF AUDITOR

The statutory audit fee for the year ended 31 December 2019 payable to Baker Tilly, the current external auditor of the Group, amounted to RMB3,600,000 and non-audit service fee for the interim results of the Group for 2019 paid to PricewaterhouseCoopers, the former external auditor of the Group amounted to RMB1,500,000.

### DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL REPORT

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

Reporting responsibility statement with respect to the financial report of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 54 and 55 in this annual report.

### RISK MANAGEMENT AND INTERNAL CONTROL

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

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

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

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



## CORPORATE GOVERNANCE REPORT

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

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

### HANDLING OF INSIDE INFORMATION

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

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

### CONSTITUTIONAL DOCUMENTS

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



## CORPORATE GOVERNANCE REPORT

### SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

## INDEPENDENT AUDITOR'S REPORT



### INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.

(Incorporated in the Cayman Islands with limited liability)

#### OPINION

We have audited the consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 182, which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

#### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



## INDEPENDENT AUDITOR'S REPORT *(Continued)*

### KEY AUDIT MATTERS

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

Key Audit Matter	How our audit addressed the Key Audit Matter
<b>Fair value measurement of financial instruments with significant inputs not based on observable market data (level 3)</b>	
Refer to Note 3.3 (Fair value estimation), Note 22 (Financial assets at fair value through other comprehensive income) and Note 27 (Financial assets at fair value through profit or loss) to the consolidated financial statements.	We understood and tested management's procedures and key controls over the measurement of fair value in level 3 financial instruments;
As at 31 December 2019, the balances of the Group's investments in unlisted financial instruments measured at fair value through profit or loss and at fair value through other comprehensive income amounted to approximately RMB5,819 million.	We evaluated the competence, independence, capabilities and objectivity of the Group's external valuers;
These unlisted financial instruments were valued with inputs not based on active market prices nor observable market data and were categorised as level 3 in the fair value hierarchy.	

## INDEPENDENT AUDITOR'S REPORT *(Continued)*

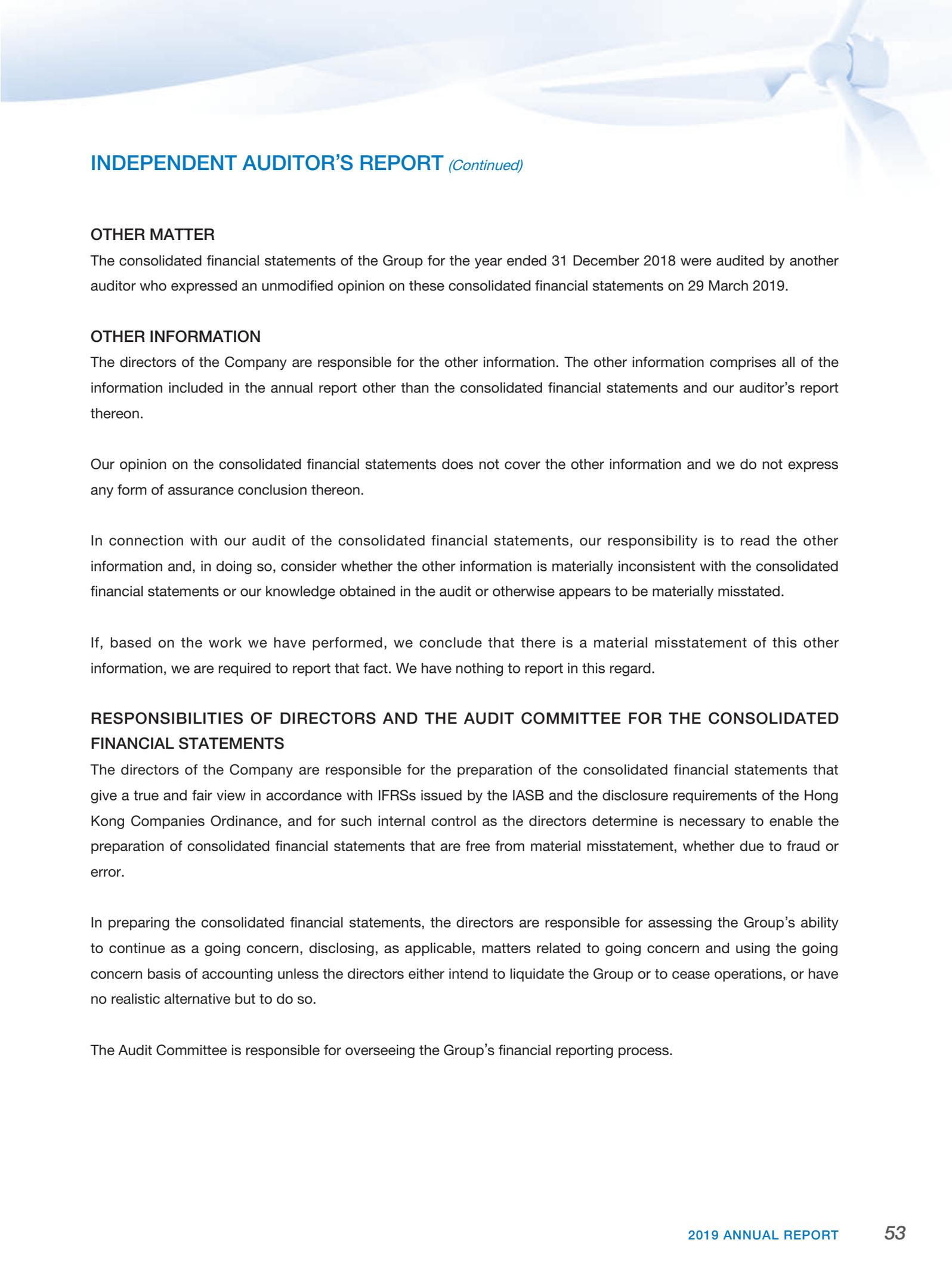
### KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Fair value measurement of financial instruments with significant inputs not based on observable market data (level 3) (continued)</b></p> <p>The fair values of level 3 financial instruments were determined through the application of valuation techniques. With assistance from external valuers, management has exercised significant judgements and estimates in identifying the appropriate valuation models and inputs including revenue growth rate, operating margin, discount rate, liquidity discounts, earnings multiples and recent transaction prices. We have therefore focused on this area.</p>	<p>We re-performed valuations on a sample basis to evaluate the valuation models and key inputs adopted by the Group including:</p> <ul style="list-style-type: none"><li>• Examining the contractual agreements and checking the calculation made by management and obtaining the investment confirmation to verify the existence and accuracy of each level 3 financial instruments;</li><li>• Comparing the revenue growth rate and operating margin to the forecast of future profits and historical data;</li><li>• Assessing the reasonableness of the discount rate by comparing cost of capital of comparable companies in the open market; and</li><li>• Evaluating the liquidity discounts, earnings multiples and recent transaction prices used by comparing with similar types of companies.</li></ul> <p>Based on the procedures above, we found the judgements and estimates made by management in measuring the fair values of level 3 financial instruments were supported by the available evidence.</p>

## INDEPENDENT AUDITOR'S REPORT *(Continued)*

### KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	How our audit addressed the Key Audit Matter
<p><b>Recoverability of trade receivables</b></p> <p>Refer to Note 3.1(b) (Financial risk management – Credit risk), Note 4(b) (Critical accounting estimates and judgements – expected credit loss for receivables) and Note 25 (Trade and other receivables) to the consolidated financial statements.</p> <p>As at 31 December 2019, the Group had approximately RMB2,914 million trade receivables and an impairment provision of RMB536 million has been provided.</p> <p>Management applied significant judgement in assessing the expected credit losses. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on similar credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customers and its ageing category. The expected credit loss rates are determined based on historical credit losses experienced from the past 48 months and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.</p> <p>We focused on this area because significant management judgements and estimates are applied in determining the provision for impairment of such balances.</p>	<p>We understood and tested key controls on a sample basis over management's policies, processes and controls over assessment on recoverability of trade receivables balance and determination of impairment provision;</p> <p>We assessed the appropriateness of the credit loss provisioning methodology used by the Group;</p> <p>For trade receivables assessed individually, we obtained management's assessment of the collectability (both amount and timing) of receivables balances. We corroborated against available evidences, including interviewing sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to whether there are any disputes with customers;</p> <p>We challenged the assumptions used to determine the expected credit losses by considering cash collection performance against historical trends and current and forward-looking information such as the impact of macroeconomic factors on probability of default and loss given default based on our understanding of the industry and with reference to external data source; and</p> <p>We tested on a sample basis, the accuracy of management's ageing report of trade receivables by checking to sales invoices and other supporting documents.</p> <p>Based upon the above, we found that the judgements and estimates made by management in respect of the impairment provision were supportable by the available evidence.</p>



## **INDEPENDENT AUDITOR'S REPORT** *(Continued)*

### **OTHER MATTER**

The consolidated financial statements of the Group for the year ended 31 December 2018 were audited by another auditor who expressed an unmodified opinion on these consolidated financial statements on 29 March 2019.

### **OTHER INFORMATION**

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

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

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

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

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

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.



## INDEPENDENT AUDITOR'S REPORT *(Continued)*

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

## INDEPENDENT AUDITOR'S REPORT *(Continued)*

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

*(Continued)*

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mr. Gao Yajun.

**Baker Tilly Hong Kong Limited**

*Certified Public Accountants*

Hong Kong, 30 March 2020

**Gao Yajun**

Practising Certificate Number P06391

## CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB'000	2018 RMB'000
<b>Continuing operations</b>			
Revenue from contracts with customers	5	9,722,896	8,203,500
Cost of sales		(7,788,003)	(6,672,511)
<b>Gross profit</b>		<b>1,934,893</b>	<b>1,530,989</b>
Selling and distribution expenses		(362,811)	(292,946)
Administrative expenses		(519,269)	(494,546)
Research and development costs		(394,961)	(337,457)
Net impairment losses on financial assets	3.1(b)	(62,188)	(57,059)
Other income	6	182,307	209,879
Other gains – net	7	64,543	192,107
<b>Operating profit</b>		<b>842,514</b>	<b>750,967</b>
Finance income	10	80,841	143,895
Finance costs	10	(512,030)	(630,963)
Finance costs – net		(431,189)	(487,068)
Share of net profit of associates and joint ventures accounted for using the equity method	19	4,752	15,884
<b>Profit before income tax</b>		<b>416,077</b>	<b>279,783</b>
Income tax expenses	11	(62,430)	(10,781)
<b>Profit for the year from continuing operations</b>		<b>353,647</b>	<b>269,002</b>
Profit/(loss) for the year from discontinued operations	29	63,964	(62,530)
<b>Profit for the year</b>		<b>417,611</b>	<b>206,472</b>

## CONSOLIDATED INCOME STATEMENT *(Continued)*

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Profit/(loss) attributable to:</b>			
– Owners of the Company		438,188	208,401
– Non-controlling interests		(20,577)	(1,929)
		<b>417,611</b>	<b>206,472</b>
<b>Profit/(loss) attributable to owners of the Company arises from:</b>			
– Continuing operations		367,426	282,805
– Discontinued operations		70,762	(74,404)
		<b>438,188</b>	<b>208,401</b>
<b>Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company for the year (expressed in RMB per share)</b>			
Basic and diluted earnings per share	12	0.225	0.173
<b>Earnings per share for profit attributable to the ordinary equity holders of the Company for the year (expressed in RMB per share)</b>			
Basic and diluted earnings per share	12	0.268	0.128

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

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Profit for the year</b>		<b>417,611</b>	<b>206,472</b>
<b>Other comprehensive (loss)/income for the year:</b>			
<i>Items that may be reclassified to profit or loss</i>			
– Changes in the fair value of debt instruments at fair value through other comprehensive income		(9,006)	15,317
– Currency translation differences		(7,033)	(4,486)
– Income tax relating to these items	36	1,724	(3,829)
		<b>(14,315)</b>	<b>7,002</b>
<i>Items that may not be reclassified to profit or loss</i>			
– Changes in the fair value of equity instruments at fair value through other comprehensive income		146,287	(85,519)
– Income tax relating to these items	36	(38,833)	18,846
		<b>107,454</b>	<b>(66,673)</b>
<b>Other comprehensive income/(loss) for the year, net of tax</b>		<b>93,139</b>	<b>(59,671)</b>
<b>Total comprehensive income for the year</b>		<b>510,750</b>	<b>146,801</b>
<b>Total comprehensive income/(loss) attributable to:</b>			
– Owners of the Company		530,205	149,085
– Non-controlling interests		(19,455)	(2,284)
		<b>510,750</b>	<b>146,801</b>
<b>Total comprehensive income/(loss) for the year attributable to owners of the Company arises from:</b>			
– Continuing operations		457,218	223,489
– Discontinued operations		72,987	(74,404)
		<b>530,205</b>	<b>149,085</b>

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

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	As at 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Non-current assets</b>			
Property, plant and equipment	14	3,973,655	3,815,283
Land lease prepayments	15(a)	–	531,801
Right-of-use assets	15(b)	658,942	–
Goodwill	16	26,414	272
Intangible assets	17	–	14,825
Investments accounted for using the equity method	19	287,011	418,819
Financial assets at fair value through other comprehensive income	22	2,597,819	2,548,454
Financial assets at fair value through profit or loss	27	541,900	518,602
Other financial assets at amortised cost	21	549,827	517,327
Deposits for land leases	23	11,361	116,800
Deferred income tax assets	36	298,766	271,427
		<b>8,945,695</b>	<b>8,753,610</b>
<b>Current assets</b>			
Inventories	24	2,568,569	2,313,001
Land lease prepayments	15(a)	–	11,486
Trade receivables	25	2,378,101	4,445,523
Other receivables	25	2,226,429	984,693
Other financial assets at amortised cost	21	254,050	205,861
Prepayments	26	255,606	361,851
Financial assets at fair value through other comprehensive income	22	2,780,914	1,368,456
Financial assets at fair value through profit or loss	27	253,132	1,993,594
Income tax prepaid		33,377	82,362
Pledged bank deposits	28	2,642,560	2,922,234
Cash and cash equivalents	28	2,520,415	2,062,624
Assets of disposal group classified as held-for-sale	29	–	1,243,244
		<b>15,913,153</b>	<b>17,994,929</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

As at 31 December 2019

	Note	As at 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Current liabilities</b>			
Borrowings	33	2,824,000	4,960,387
Corporate bonds	33	1,914,275	–
Trade payables	32	2,050,701	1,716,846
Bills payable	32	3,884,766	4,526,958
Other payables	32	1,041,008	1,021,963
Contract liabilities	38	529,255	302,533
Deferred income	34	17,124	17,196
Income tax payable		76,840	43,125
Warranty provision	35	216,868	90,373
Liabilities of disposal group classified as held-for-sale	29	–	502,315
		<b>12,554,837</b>	<b>13,181,696</b>
<b>Net current assets</b>		<b>3,358,316</b>	<b>4,813,233</b>
<b>Total assets less current liabilities</b>		<b>12,304,011</b>	<b>13,566,843</b>
<b>Non-current liabilities</b>			
Borrowings	33	736	1,105
Corporate bonds	33	498,437	2,411,465
Deferred income	34	180,273	54,283
Warranty provision	35	97,164	72,528
Deferred income tax liabilities	36	198,003	162,198
		<b>974,613</b>	<b>2,701,579</b>
<b>Net assets</b>		<b>11,329,398</b>	<b>10,865,264</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 31 December 2019

	Note	As at 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Capital and reserves</b>			
Share capital	30	119,218	119,218
Reserves	31	11,087,825	10,672,614
<b>Equity attributable to owners of the Company</b>		<b>11,207,043</b>	<b>10,791,832</b>
<b>Non-controlling interests</b>		<b>122,355</b>	<b>73,432</b>
<b>Total equity</b>		<b>11,329,398</b>	<b>10,865,264</b>

Approved and authorised for issue by the Board of Directors on 30 March 2020.

Hu Jichun

*Director*

Chen Yongdao

*Director*

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the year ended 31 December 2019

	Note	Attributable to owners of the Company					Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total			
		RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	
At 1 January 2019		119,218	5,414,069	5,258,545	10,791,832	73,432	10,865,264	
Profit/(loss) for the year		-	-	438,188	438,188	(20,577)	417,611	
Other comprehensive income for the year		-	92,017	-	92,017	1,122	93,139	
Total comprehensive income/(loss) for the year		-	92,017	438,188	530,205	(19,455)	510,750	
Dividends recognised as distribution	13	-	(114,994)	-	(114,994)	-	(114,994)	
Disposal of financial assets at fair value through other comprehensive income		-	(93,525)	93,525	-	-	-	
Disposal of subsidiaries	29	-	-	-	-	68,378	68,378	
Appropriation to statutory reserve		-	4,105	(4,105)	-	-	-	
At 31 December 2019		119,218	5,301,672	5,786,153	11,207,043	122,355	11,329,398	

## CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Cash flows from operating activities</b>			
Cash generated from operations	37	2,134,239	738,796
Income tax paid		(20,522)	(183,066)
<b>Net cash generated from operating activities</b>		<b>2,113,717</b>	<b>555,730</b>
<b>Cash flows from investing activities</b>			
Placements of pledged bank deposits		(5,955,991)	(9,476,003)
Withdrawals of pledged bank deposits		6,242,712	9,427,658
Investments in structured bank deposits		(150,000)	(933,000)
Redemption of structured bank deposits		960,247	108,000
Purchase of financial assets at fair value through other comprehensive income		(26,998)	(5,000)
Proceeds from sale of financial assets at fair value through other comprehensive income		151,609	2,150
Dividends received from financial assets at fair value through other comprehensive income		7,641	46,901
Purchase of financial assets at fair value through profit or loss		(1,500)	(454,752)
Proceeds from sale of financial assets at fair value through profit or loss		5,300	536,228
Dividends received from financial assets at fair value through profit or loss		22,808	36,275
Purchases of other financial assets at amortised cost		(33,087)	(705,861)
Redemption of other financial assets at amortised cost		–	500,000
Purchases of property, plant and equipment		(525,093)	(490,555)
Payments for right-of-use assets/land leases		(46,951)	(91,755)
Purchases of intangible assets		(345)	–
Proceeds from disposal of property, plant and equipment		40,471	31,791
Capital injection to an associate		–	(120,733)
Proceeds from disposal of an associate		31,549	–
Proceeds from disposal of joint ventures		81,500	–
Dividends received from an associate		21,800	5,897
Net cash inflow/(outflow) on acquisition of a subsidiary	42	1,386	(15,164)
Net cash inflow/(outflow) on disposal of the discontinued operations	29	104,979	(2,972)
Receipt of consideration receivables		163,506	–

## CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

For the year ended 31 December 2019

	Note	Year ended 31 December	
		2019 RMB' 000	2018 RMB' 000
Interests received		72,590	260,128
Refund on deposit for land lease		70,000	–
Receipts of government grants		143,042	–
Loans to an associate		(95,800)	–
Loans to third parties		(149,950)	(630,107)
Cash collected from borrowings from third parties		–	594,000
<b>Net cash generated from/(used in) investing activities</b>		<b>1,135,425</b>	<b>(1,376,874)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		4,290,950	7,592,874
Repayments of borrowings		(6,472,469)	(7,838,506)
Interest paid		(515,011)	(657,860)
Dividends paid to the Company's shareholders		(114,994)	(239,103)
<b>Net cash used in financing activities</b>		<b>(2,811,524)</b>	<b>(1,142,595)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>437,618</b>	<b>(1,963,739)</b>
Cash and cash equivalents at beginning of year		2,087,881	4,030,409
Exchange differences on translation of cash and cash equivalents		(5,084)	21,211
<b>Cash and cash equivalents at end of year</b>		<b>2,520,415</b>	<b>2,087,881</b>
Cash and cash equivalent	28	2,520,415	2,062,624
Cash and cash equivalent included in assets of disposal group classified as held-for sale		–	25,257
		<b>2,520,415</b>	<b>2,087,881</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1 GENERAL INFORMATION

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

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

As at 31 December 2019, total issued ordinary shares of the Company were approximately 1,635,291 thousands (31 December 2018: 1,635,291 thousands).

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

These financial statements have been approved for issue by the Board of Directors on 30 March 2020.

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

#### 2.1 Basis of preparation

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

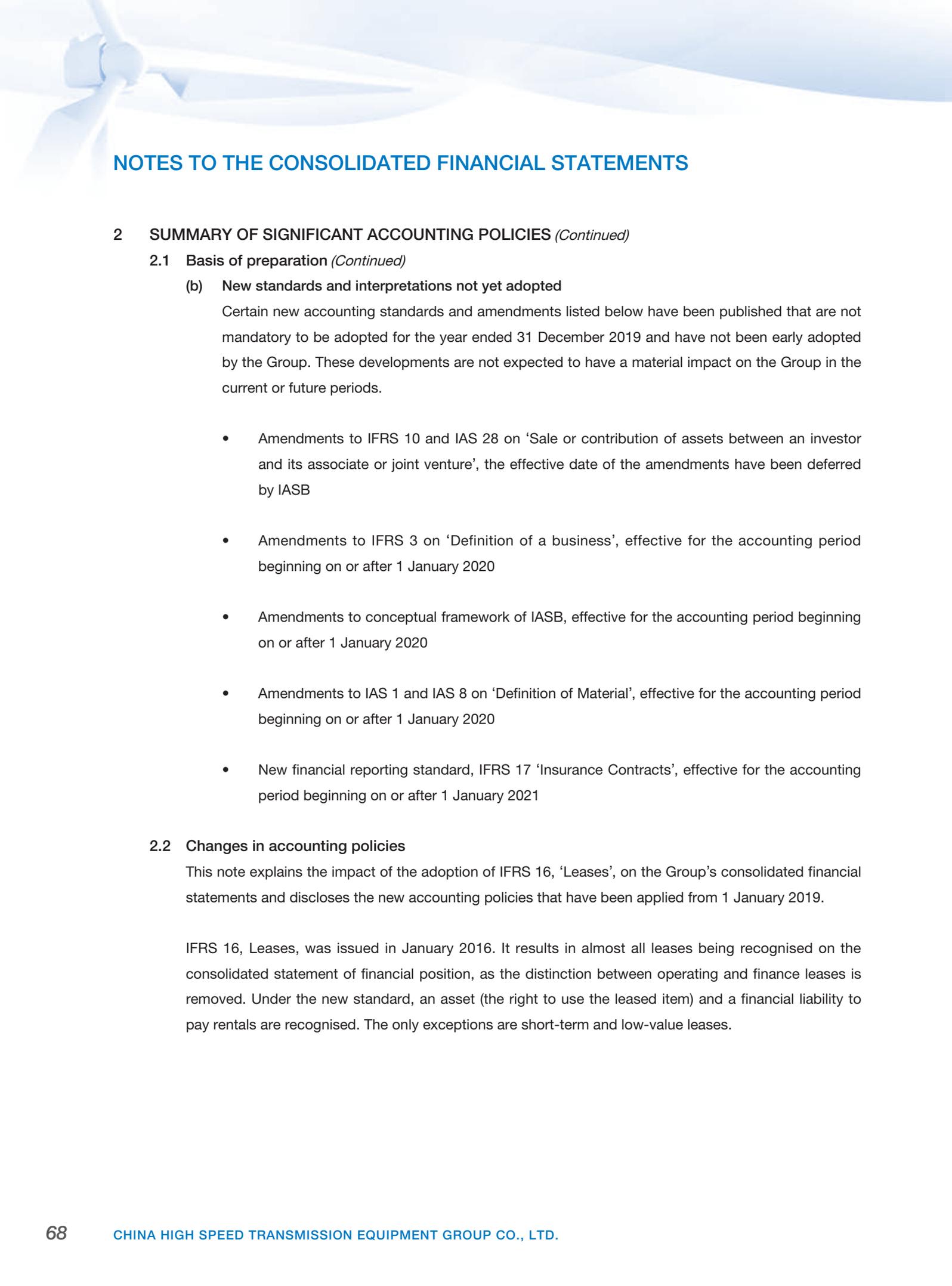
The preparation of consolidated financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or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

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

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2019:

- IFRS 16 'Leases'
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation'
- Amendments to IAS 28 'Long-term interests in Associates and Joint Ventures'
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle
- Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement'
- IFRIC 23 'Uncertainty over Income Tax Treatments'

The impact of the adoption of the IFRS 16 Leasing standard are disclosed in Note 2.2 below. The other amendments listed above did not have significant impact on the amounts recognized in prior periods and are not expected to significantly affect current or future periods.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.1 Basis of preparation *(Continued)*

##### (b) New standards and interpretations not yet adopted

Certain new accounting standards and amendments listed below have been published that are not mandatory to be adopted for the year ended 31 December 2019 and have not been early adopted by the Group. These developments are not expected to have a material impact on the Group in the current or future periods.

- Amendments to IFRS 10 and IAS 28 on 'Sale or contribution of assets between an investor and its associate or joint venture', the effective date of the amendments have been deferred by IASB
- Amendments to IFRS 3 on 'Definition of a business', effective for the accounting period beginning on or after 1 January 2020
- Amendments to conceptual framework of IASB, effective for the accounting period beginning on or after 1 January 2020
- Amendments to IAS 1 and IAS 8 on 'Definition of Material', effective for the accounting period beginning on or after 1 January 2020
- New financial reporting standard, IFRS 17 'Insurance Contracts', effective for the accounting period beginning on or after 1 January 2021

#### 2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 16, 'Leases', on the Group's consolidated financial statements and discloses the new accounting policies that have been applied from 1 January 2019.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.2 Changes in accounting policies *(Continued)*

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

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB6,900 thousands. Of these commitments, approximately RMB3,085 thousands relate to short-term leases which is recognised on a straight-line basis as expense in profit or loss.

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

#### 2.3 Subsidiaries

##### 2.3.1 Consolidation

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

##### *(a) Business combinations*

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Subsidiaries *(Continued)*

##### 2.3.1 Consolidation *(Continued)*

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

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

Acquisition-related costs are expensed as incurred.

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.3 Subsidiaries *(Continued)*

##### 2.3.1 Consolidation *(Continued)*

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

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

###### *(c) Disposal of subsidiaries*

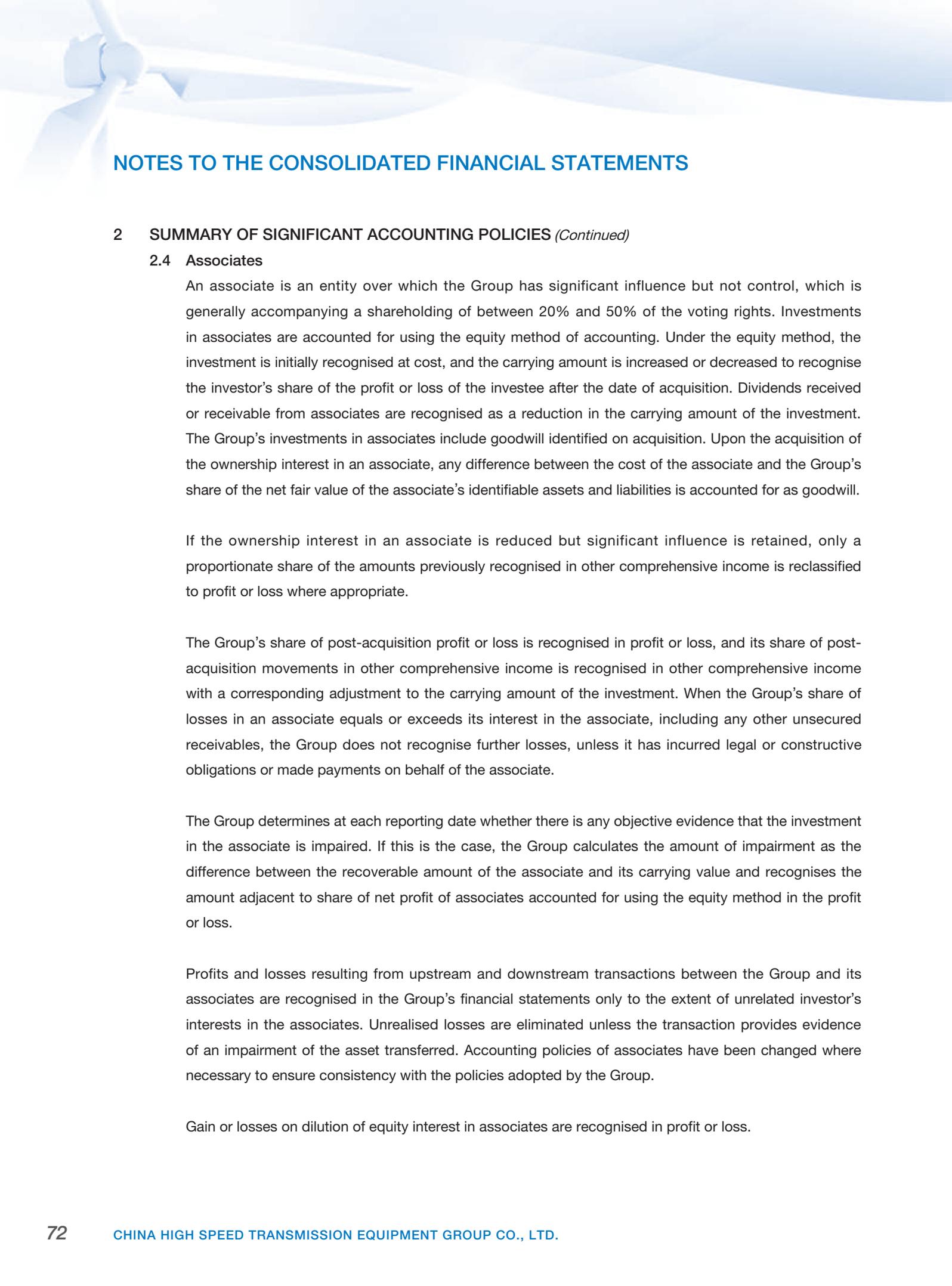
When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the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

##### 2.3.2 Separate financial statements

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.4 Associates

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

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

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

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

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

Gain or losses on dilution of equity interest in associates are recognised in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.5 Joint arrangements

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

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

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

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

#### 2.6 Segment reporting

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.7 Foreign currency translation

##### (a) Functional and presentation currency

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

##### (b) Transactions and balances

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.7 Foreign currency translation *(Continued)*

##### (c) Group companies

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

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

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

##### (d) Disposal of foreign operation and partial disposal

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.8 Property, plant and equipment

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

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

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

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

Freehold land is stated at cost less any impairment losses and is not 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 2.11).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.9 Land lease prepayments (accounting policies applied until 31 December 2018)

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

Land use rights	30-50 years
-----------------	-------------

#### 2.10 Intangible assets

##### (a) Goodwill

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

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

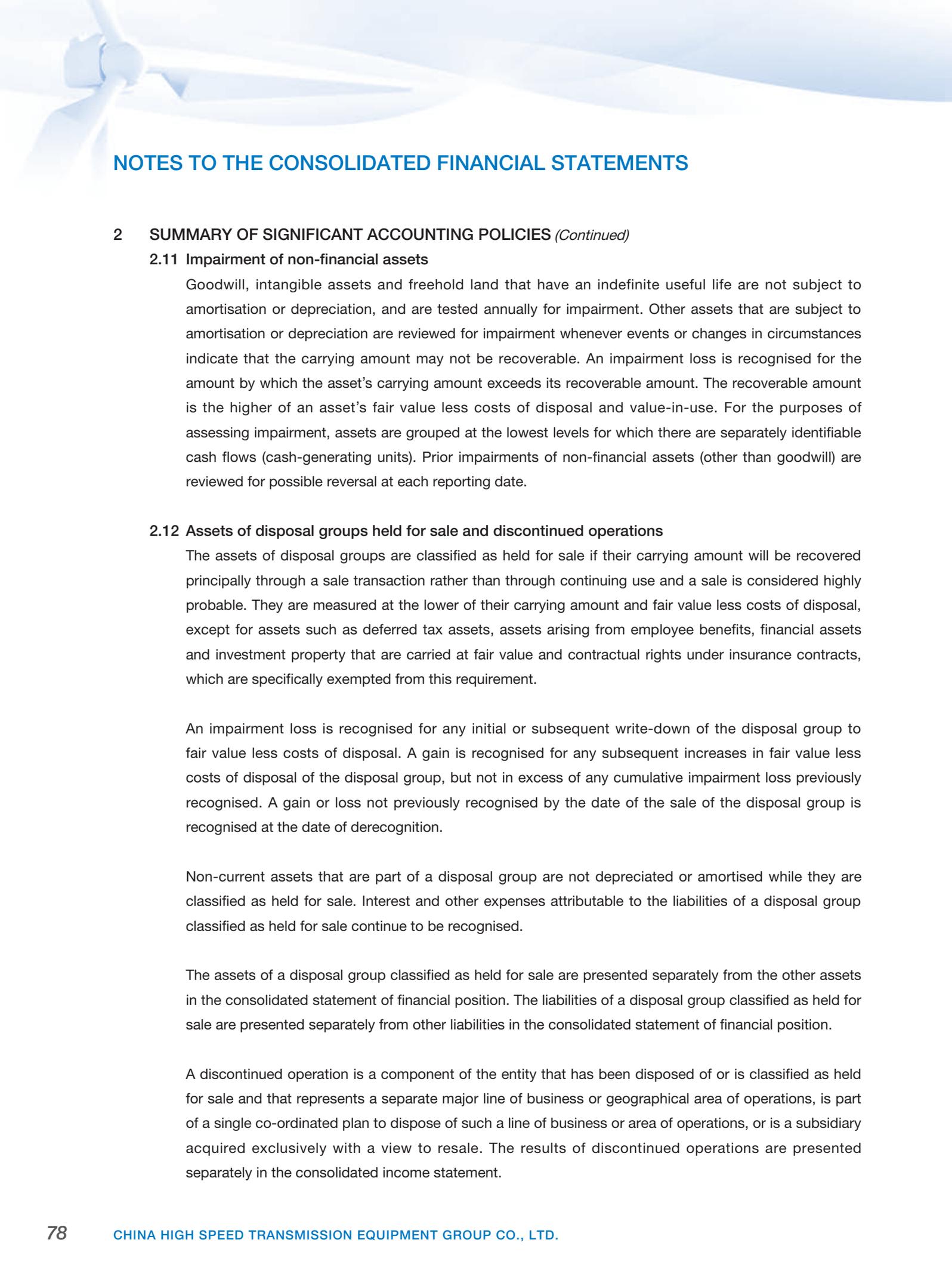
For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents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

##### (b) Technical know-how

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

##### (c) Research and development costs

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.11 Impairment of non-financial assets

Goodwill, intangible assets and freehold land that have an indefinite useful life are not subject to amortisation or depreciation, and are tested annually for impairment. 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.

#### 2.12 Assets of disposal groups held for sale and discontinued operations

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.13 Investments and other financial assets

##### 2.13.1 Classification

The Group classifies its financial assets in the following measurement categories:

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

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

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

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

##### 2.13.2 Recognition and derecognition

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

##### 2.13.3 Measurement

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.13 Investments and other financial assets *(Continued)*

##### 2.13.3 Measurement *(Continued)*

###### *Debt instruments*

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

- **Amortised cost:** Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains – net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.
- **FVOCI:** Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through 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 gains – net", and impairment expenses are presented as separate line item in the consolidated income statement.
- **FVPL:** Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Other gains – net" in the period in which it arises.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.13 Investments and other financial assets *(Continued)*

##### 2.13.3 Measurement *(Continued)*

###### *Equity instruments*

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

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

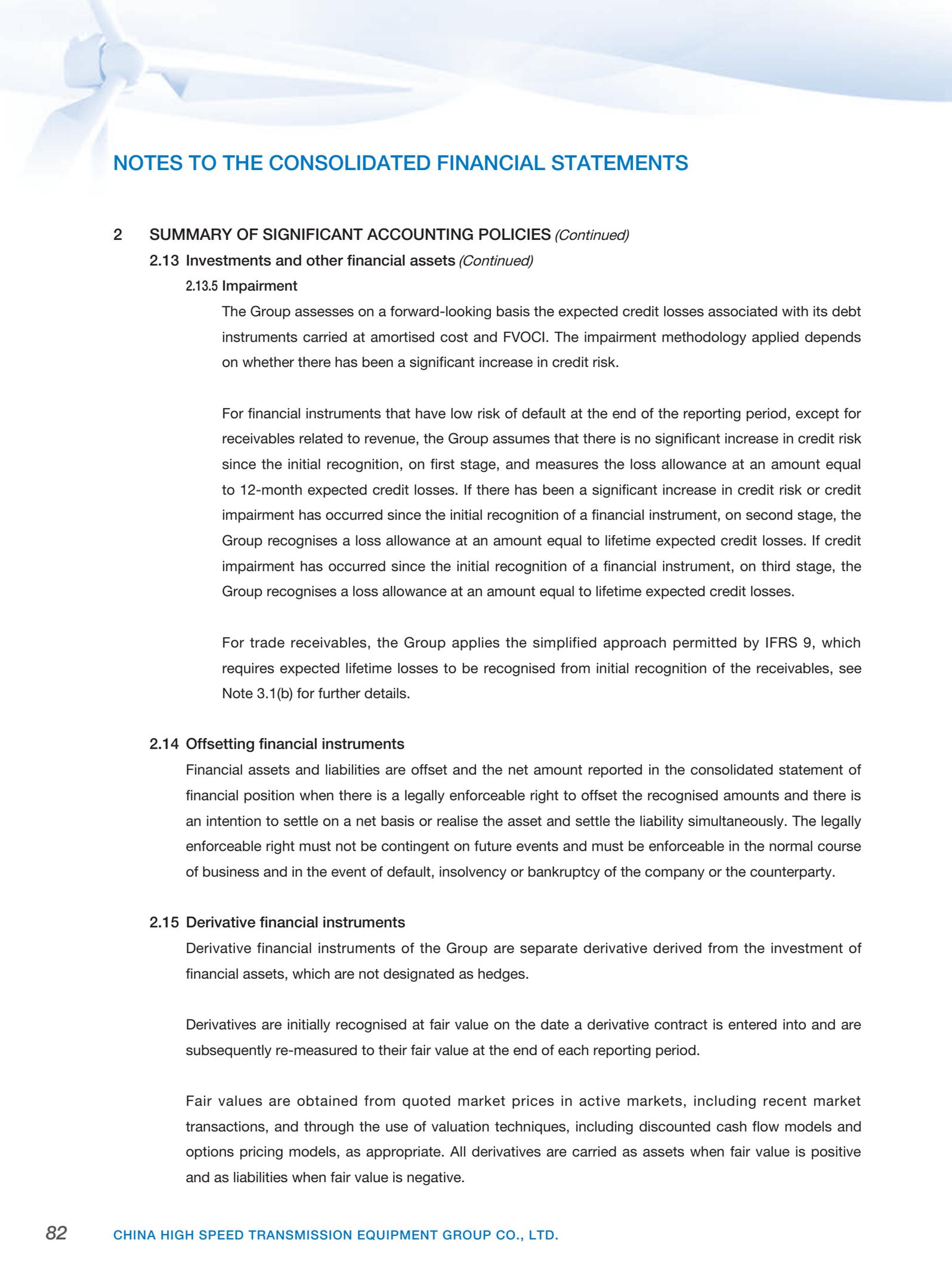
##### 2.13.4 Derecognition of financial assets

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.13 Investments and other financial assets *(Continued)*

##### 2.13.5 Impairment

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

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

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

#### 2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or 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.

#### 2.15 Derivative financial instruments

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.15 Derivative financial instruments *(Continued)*

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

#### 2.16 Inventories

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

#### 2.17 Trade receivables, bills receivable and other receivables

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

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

#### 2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term, 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, and bank overdrafts. In the Group's consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.19 Restricted cash

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

#### 2.20 Share capital

Ordinary shares are classified as equity.

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

#### 2.21 Trade payables, bills payable and other payables

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

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

#### 2.22 Borrowings

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.23 Borrowing costs

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

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

All other borrowing costs are 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.

#### 2.24 Current and deferred income tax

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

##### (a) Current income tax

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.24 Current and deferred income tax *(Continued)*

##### (b) Deferred income tax

###### *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply 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, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates or joint arrangements. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, would the deferred tax liability in relation to taxable temporary differences arising from the associate or the joint arrangement's undistributed profits is recognised.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.24 Current and deferred income tax *(Continued)*

##### (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.

#### 2.25 Employee benefits

##### (a) Short-term obligations

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

##### (b) Pension obligations

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.25 Employee benefits *(Continued)*

##### (c) Termination benefits

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

#### 2.26 Provisions and contingent liabilities

##### Provisions

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.26 Provisions and contingent liabilities *(Continued)*

##### 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.

#### 2.27 Revenue recognition

##### (i) Sales of mechanical transmission equipment

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

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

##### (ii) Rental income

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the lease. See Note 2.31 for further details.

#### 2.28 Interest income

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

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.29 Dividend income

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

#### 2.30 Government grants

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

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

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

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

#### 2.31 Leases

Until 31 December 2018, leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, a lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.31 Leases *(Continued)*

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

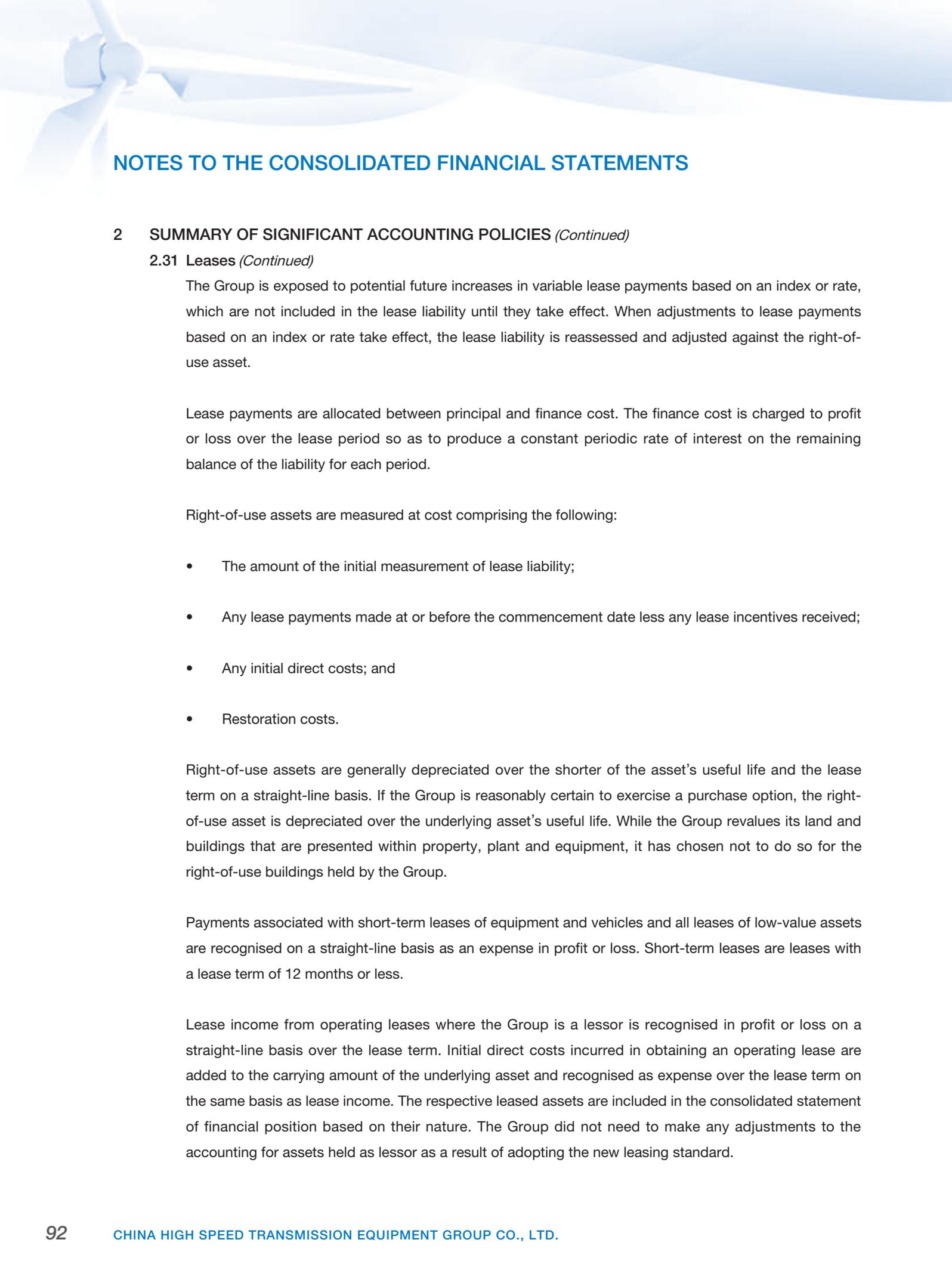
- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;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

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

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

To determine the incremental borrowing rate, the Group:

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.31 Leases *(Continued)*

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

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

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life. While the Group revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Group.

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

Lease income from operating leases where the Group is a lessor is recognised in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.32 Dividend distribution

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

#### 2.33 Research and development costs

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

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.34 Financial guarantee contracts

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

- The amount determined in accordance with the expected credit loss model under IFRS 9, 'Financial Instruments'; and
- The amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15, 'Revenue from Contracts with Customers'.

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

Where guarantees in relation to loans or other payables of associates 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.

#### 2.35 Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### 2.35 Related parties *(Continued)*

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT

#### 3.1 Financial risk factors

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

#### (a) Market risk

##### (i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD"), Euro ("EUR"), and Hong Kong dollar ("HKD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. Approximately 27% (2018: 34%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 3% (2018: 4%) of costs were not denominated in the functional currency. The 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 carrying amounts of the 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:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Assets</b>		
USD	997,817	926,729
EUR	288,920	279,273
HKD	35,013	21,813
<b>Liabilities</b>		
USD	55,026	483,671
EUR	16,027	287,668
HKD	306	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

##### (a) Market risk *(Continued)*

##### (i) Foreign exchange risk *(Continued)*

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

	Increase/ (decrease) in RMB rate %	Increase/ (Decrease) in profit after tax RMB' 000	Increase/ (decrease) in equity* RMB' 000
<b>For the year ended 31 December 2019</b>			
If the USD weakens against the RMB	5%	(39,120)	–
If the USD strengthens against the RMB	(5%)	39,120	–
If the EUR weakens against the RMB	5%	(11,352)	–
If the EUR strengthens against the RMB	(5%)	11,352	–
If the HKD weakens against the RMB	5%	(244)	(1,425)
If the HKD strengthens against the RMB	(5%)	244	1,425
<b>For the year ended 31 December 2018</b>			
If the USD weakens against the RMB	5%	(16,277)	–
If the USD strengthens against the RMB	(5%)	16,277	–
If the EUR weakens against the RMB	5%	(315)	–
If the EUR strengthens against the RMB	(5%)	315	–
If the HKD weakens against the RMB	5%	(357)	(702)
If the HKD strengthens against the RMB	(5%)	357	702

\* Excluding retained earnings



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

##### (a) Market risk *(Continued)*

##### *(ii) Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from short-term and long-term interest-bearing borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2019, the Group's short-term and long-term interest bearing borrowings denominated with floating rates amounted to RMB90,000 thousands, which represented 2% of total borrowing balance (31 December 2018: RMB1,476,160 thousands as above, representing 20% of total borrowing balance).

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

As at 31 December 2019, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB383 thousands as above (31 December 2018: RMB5,512 thousands as above), mainly as a result of higher/lower interest expense on floating rate borrowings.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

##### (a) Market risk *(Continued)*

##### *(iii) Equity price risk*

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

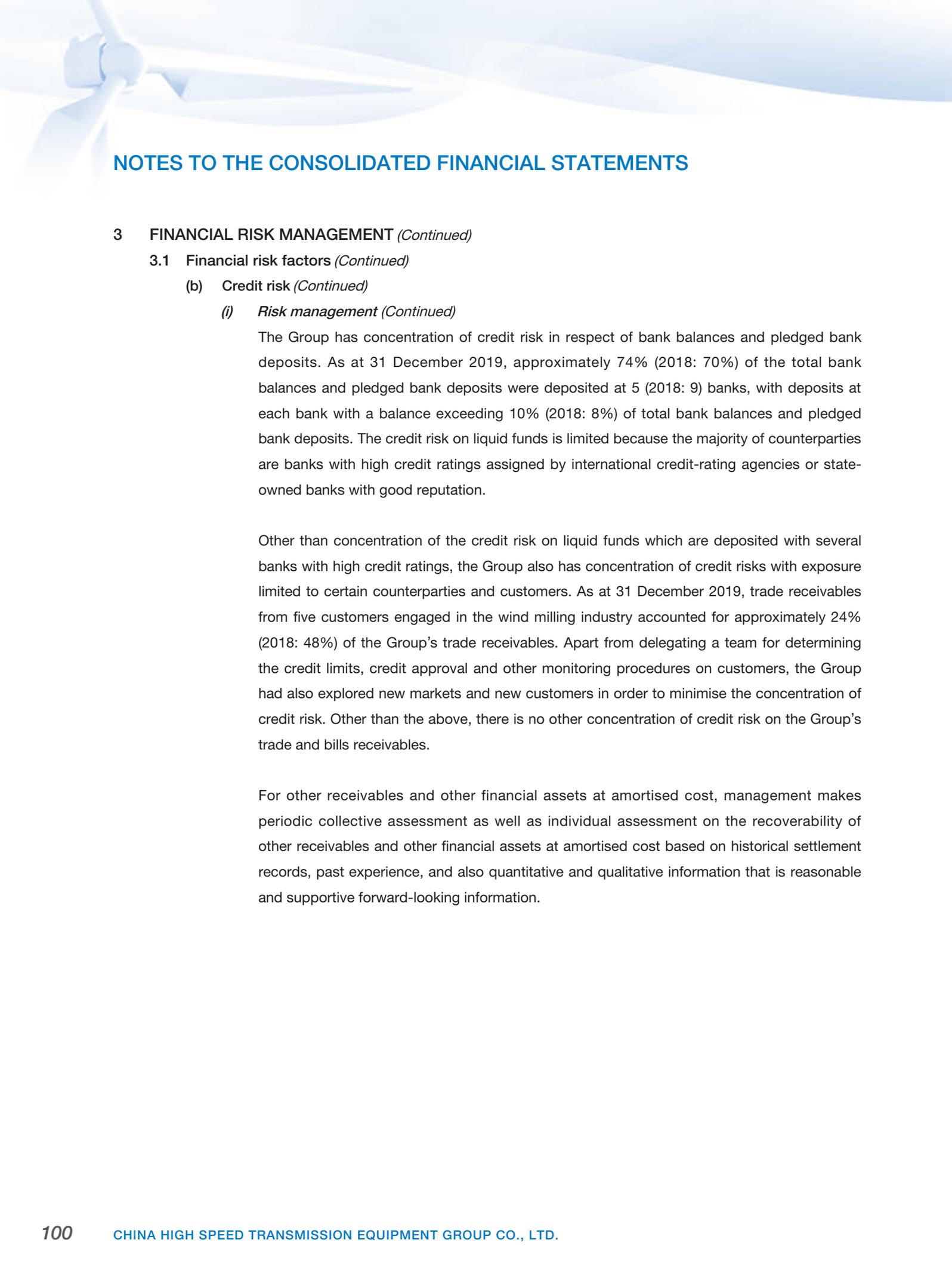
The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. If the prices of the respective listed equity instruments had been 10% (2018: 10%) higher/lower, the total comprehensive income for the year ended 31 December 2019 would have increased/decreased by approximately RMB35,523 thousands excluding any tax effect as above (2018: RMB22,246 thousands excluding any tax effect as above) as a result of the changes in fair value of the listed equity instruments.

##### (b) Credit risk

##### *(i) Risk management*

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

The Group has concentration of credit risk in respect of bank balances and pledged bank deposits. As at 31 December 2019, approximately 74% (2018: 70%) of the total bank balances and pledged bank deposits were deposited at 5 (2018: 9) banks, with deposits at each bank with a balance exceeding 10% (2018: 8%) of total bank balances and pledged bank deposits. The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks with good reputation.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group also has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2019, trade receivables from five customers engaged in the wind milling industry accounted for approximately 24% (2018: 48%) of the Group's trade receivables. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk. Other than the above, there is no other concentration of credit risk on the Group's trade and bills receivables.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

##### *Trade receivables*

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

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

##### Trade receivables (Continued)

On that basis, the loss allowance as at 31 December 2019 and 31 December 2018 was determined as follows for trade receivables:

	Less than 1 year RMB' 000	Between 1 and 2 years RMB' 000	Between 2 and 3 years RMB' 000	Between 3 and 4 years RMB' 000	Over 4 years RMB' 000	Total RMB' 000
<b>As at 31 December 2019</b>						
Expected credit loss rate	3%	24%	45%	83%	100%	16%
Gross carrying amount						
– trade receivables	2,208,502	187,738	153,897	52,314	221,156	2,823,607
Loss allowance under						
ECL model	67,349	44,627	69,095	43,279	221,156	445,506
100% specifically provided	1,872	24,861	56,320	6,652	951	90,656
<b>Loss allowance</b>	<b>69,221</b>	<b>69,488</b>	<b>125,415</b>	<b>49,931</b>	<b>222,107</b>	<b>536,162</b>
<b>As at 31 December 2018</b>						
Expected credit loss rate	2%	16%	24%	77%	100%	9%
Gross carrying amount						
– trade receivables	4,038,831	391,590	183,972	59,803	217,059	4,891,255
Loss allowance under						
ECL model	75,008	62,662	44,668	46,335	217,059	445,732
100% specifically provided	26,734	56,462	6,510	269	681	90,656
<b>Loss allowance</b>	<b>101,742</b>	<b>119,124</b>	<b>51,178</b>	<b>46,604</b>	<b>217,740</b>	<b>536,388</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

##### *Trade receivables (Continued)*

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

	2019 RMB' 000	2018 RMB' 000
<b>As at 1 January</b>	<b>536,388</b>	<b>640,420</b>
Provision for loss allowance recognised in profit or loss	18,853	34,937
Receivables written off during the year as uncollectible	(19,079)	(7,782)
Transferred to disposal group classified as held-for-sale	–	(131,187)
<b>As at 31 December</b>	<b>536,162</b>	<b>536,388</b>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

##### *Financial assets at amortised cost (excluding trade receivables)*

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

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

Category	Group definition of category	Basis for recognition of expected credit loss provision	Expected credit loss rate
Stage one	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 month expected credit losses. Where the expected lifetime of an asset is less than 12 months, losses are measured at its expected lifetime	0% – 10%
Stage two	Receivables for which there is a significant increase in credit risk since initial recognition	Lifetime expected credit losses	10% – 100%
Stage three	Receivables for which there is credit loss since initial recognition	Lifetime expected credit losses	50% – 100%

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.1 Financial risk factors (Continued)

##### (b) Credit risk (Continued)

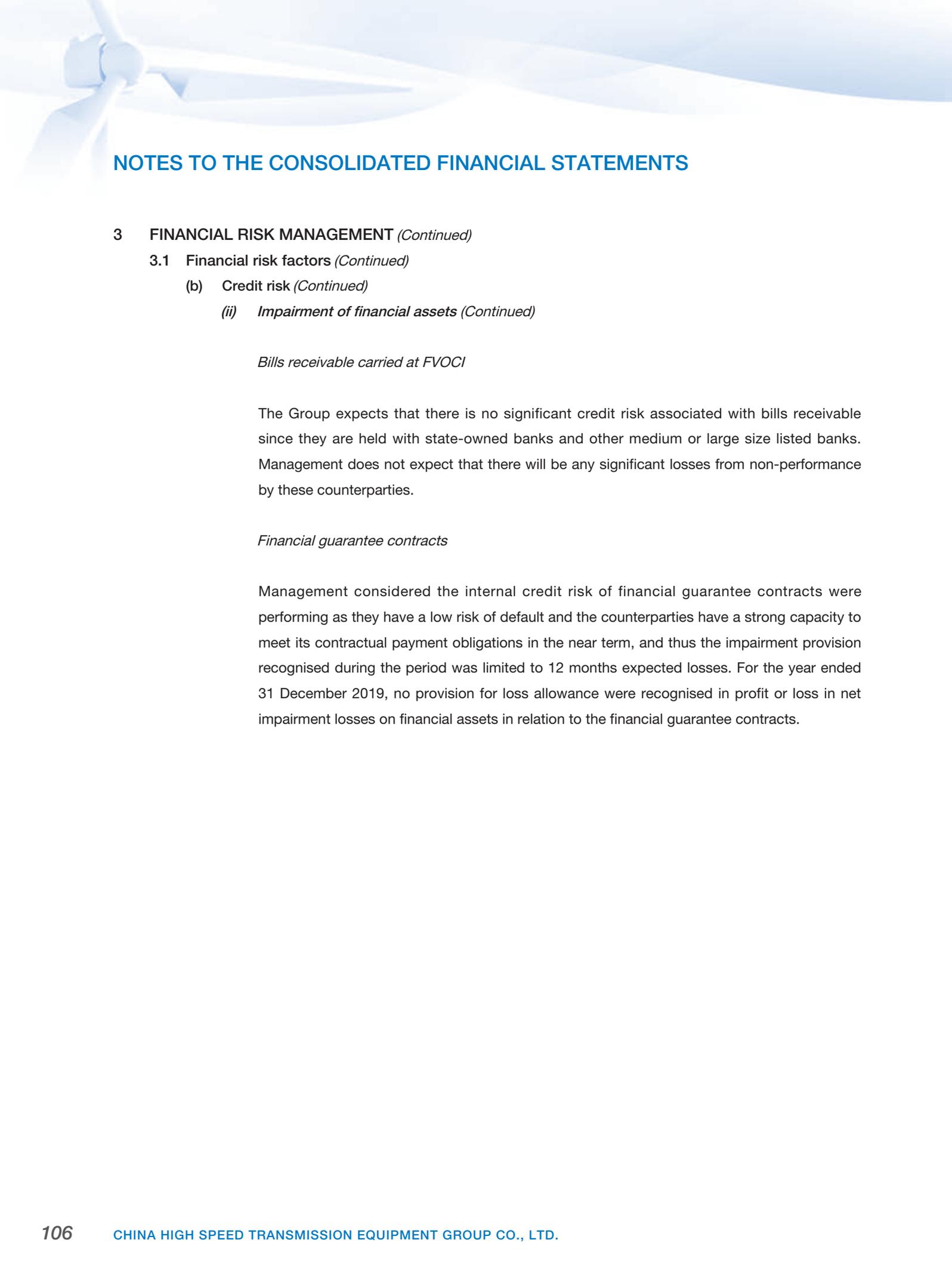
##### (ii) Impairment of financial assets (Continued)

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

During the year ended 31 December 2019, the disposal of discontinued operations was completed, the Group reassessed the collectability of amounts due from the subsidiaries of the disposal group and considered certain amounts were probably not recoverable, an impairment loss of approximately RMB405,239 thousands was recognised, which was included in the calculation of the gain on disposal of the discontinued operations.

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

	2019 RMB' 000	2018 RMB' 000
<b>As at 1 January</b>	23,509	16,470
Provision for loss allowance recognised in profit or loss	43,335	17,778
Provision for loss allowance recognised in discontinued operation (Note 29)	405,239	–
Receivables written off during the year as uncollectible	(20)	(7,656)
Transferred to disposal group classified as held-for-sale	–	(3,083)
<b>As at 31 December</b>	<b>472,063</b>	<b>23,509</b>



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

###### *Bills receivable carried at FVOCI*

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

###### *Financial guarantee contracts*

Management considered the 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 year ended 31 December 2019, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

*Net impairment losses on financial assets recognised in profit or loss*

For the years ended 31 December 2019 and 2018, the following gains/(losses) were recognised in profit or loss in relation to impaired financial assets:

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>From continuing operations:</b>		
Impairment losses for trade receivables	18,853	41,320
Impairment losses for other receivables	43,335	15,739
	62,188	57,059
<b>From discontinued operations:</b>		
Loss from discontinued operation (Note 29)	410,238	(4,344)
Net impairment losses on financial assets	472,426	52,715

##### (iii) *Financial assets at FVPL*

As at 31 December 2019, the Group is also exposed to credit risk in relation to debt investments that are measured at FVPL. The maximum exposure at the end of the reporting period is the carrying amount of these investments, which is RMB243,320 thousands (2018: RMB1,983,279 thousands as above).

##### (c) Liquidity risk

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

##### (c) Liquidity risk *(Continued)*

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

As at 31 December 2019, the Group held cash and cash equivalents of RMB2,520,415 thousands (31 December 2018: RMB2,062,624 thousands) (Note 28) and trade receivables of RMB2,378,101 thousands (31 December 2018: RMB4,445,523 thousands) (Note 25), that are expected to readily generate cash inflows for managing liquidity risk.

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

Contractual maturities of financial liabilities	Less than	Between	Between	Over	Total
	1 year	1 and 2 years	2 and 5 years	5 years	
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>At 31 December 2019</b>					
<b>Non-derivatives</b>					
Borrowings	4,930,844	538,236	–	–	5,469,080
Trade payables	2,050,701	–	–	–	2,050,701
Bills payable	3,884,766	–	–	–	3,884,766
Other payables	709,916	–	–	–	709,916
Financial guarantee contracts	697,133	31,429	16,818	90,665	836,045
	12,273,310	569,665	16,818	90,665	12,950,508

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

##### (c) Liquidity risk *(Continued)*

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

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

The amount included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee for loans procured by the purchasers of the Group's properties. Based on the expectations at the end of the reporting period, the Group considers that amount of RMB28,115 thousands will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### 3.2 Capital management

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

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

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

The gearing ratios as at 31 December 2019 and 2018 are as follows:

	As at 31 December	
	2019	2018
	RMB' 000	RMB' 000
Total assets	24,858,848	26,748,539
Total liabilities	13,529,450	15,883,275
Gearing ratio	54.4%	59.4%

#### 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### 3.3 Fair value estimation *(Continued)*

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

Recurring fair value measurements	Level 1	Level 2	Level 3	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>At 31 December 2019</b>				
<b>Financial assets</b>				
Financial assets at FVPL	–	–	795,032	795,032
Financial assets at FVOCI	355,231	–	5,023,502	5,378,733
	355,231	–	5,818,534	6,173,765
<b>At 31 December 2018</b>				
<b>Financial assets</b>				
Financial assets at FVPL	–	–	2,512,196	2,512,196
Financial assets at FVOCI	292,507	–	3,624,403	3,916,910
	292,507	–	6,136,599	6,429,106

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Fair value estimation (Continued)

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

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

	Financial assets at FVPL					Financial assets at FVOCI		Financial assets
	Unlisted equity investments	Unlisted debt investments	Trade receivables	Derivative instrument	Structured bank deposits	Unlisted equity investments	Bills receivable	Total
	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
<b>Opening balance</b>								
1 January 2018	519,487	-	-	500,000	108,000	2,228,478	1,863,434	5,219,399
Acquisitions	-	454,752	558,300	-	933,000	5,000	1,382,219	3,333,271
Disposals	(536,228)	-	-	-	(108,000)	(2,151)	(1,895,179)	(2,541,558)
Transferred to disposal group classified as held-for-sale (Note 29)	-	-	-	-	-	(2,002)	-	(2,002)
Gains/(losses) recognised in profit or loss	27,056	30,320	(7,243)	18,602	14,150	-	-	82,885
Gains recognised in other comprehensive income	-	-	-	-	-	29,287	15,317	44,604
<b>Closing balance</b>								
31 December 2018	10,315	485,072	551,057	518,602	947,150	2,258,612	1,365,791	6,136,599
<b>Opening balance</b>								
1 January 2019	10,315	485,072	551,057	518,602	947,150	2,258,612	1,365,791	6,136,599
Acquisitions	-	1,500	-	-	150,000	-	1,421,624	1,573,124
Disposals	-	(5,299)	(464,053)	-	(960,245)	-	-	(1,429,597)
Reclassified to financial assets at amortised cost	-	(512,814)	-	-	-	-	-	(512,814)
Gains/(losses) recognised in profit or loss	(503)	33,041	(664)	23,298	18,575	-	-	73,747
Gains recognised in other comprehensive income	-	-	-	-	-	(13,519)	(9,006)	(22,525)
<b>Closing balance</b>								
31 December 2019	9,812	1,500	86,340	541,900	155,480	2,245,093	2,778,409	5,818,534

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 3 FINANCIAL RISK MANAGEMENT (Continued)

#### 3.3 Fair value estimation (Continued)

##### (ii) Valuation inputs and relationships to fair value

Financial instruments	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at FVPL	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
- Unlisted equity investments				
- Unlisted debt investments				
- Trade receivables				
- Structured bank deposits				
- Derivative instruments				
Financial assets at FVOCI	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
- Unlisted equity Investments				
- Bills receivable				

##### (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 2019 would have increased/decreased by approximately RMB15,239 thousands (year ended 31 December 2018: increased/decreased by approximately RMB10,892 thousands) as a result of the changes in fair value of the financial assets.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

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

#### (b) Expected credit loss for receivables

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

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

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

#### (d) Impairments for non-financial assets

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

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

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

#### (f) Estimation of provision for warranty claims

The Group generally offers 36-66 months warranties for its mechanical transmission equipment. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. As at 31 December 2019, this particular provision had a carrying amount of RMB314,032 thousands (2018: RMB162,901 thousands).

#### (g) Current and deferred income taxes

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

#### (h) Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. As at 31 December 2019, the carrying value of deferred tax liabilities relating to withholding tax was approximately RMB63,736 thousands (2018: RMB49,087 thousands).



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 OPERATING SEGMENT INFORMATION

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

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

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

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

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

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 Group while the unallocated assets represent the assets of the Group excluding trade and bills receivables. The related impairment loss on trade and bills receivables is not reported to the CODM as part of segment results.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 OPERATING SEGMENT INFORMATION *(Continued)*

#### (a) Segment information

	PRC RMB' 000	USA RMB' 000	Europe RMB' 000	Other countries RMB' 000	Total RMB' 000
<b>For the year ended</b>					
31 December 2019					
<b>Segment revenue</b>					
Total segment revenue	9,178,669	2,108,333	616,165	318,496	12,221,663
Inter-segment revenue	(2,332,051)	(64,338)	(94,940)	(7,438)	(2,498,767)
Revenue from external customers	6,846,618	2,043,995	521,225	311,058	9,722,896
<b>Timing of revenue recognition</b>					
At a point in time	6,846,618	2,043,995	521,225	311,058	9,722,896
<b>Segment results</b>	1,123,404	390,123	92,432	54,536	1,660,495
Unallocated other income					93,894
Unallocated other gains – net					64,543
Impairment losses on financial assets					(62,188)
Finance costs – net					(431,189)
Share of profits and losses of associates and joint ventures					4,752
Corporation and other unallocated expenses					(914,230)
Profit before income tax					416,077
<b>Segment assets</b>	4,799,221	96,020	27,596	233,673	5,156,510
Corporate and other unallocated assets					19,702,338
Total assets					24,858,848
<b>Other segment information</b>					
Reversal of provision recognised for decline in the value of inventories	(1,838)	–	–	–	(1,838)
Impairment losses on financial assets, net	62,196	(16)	–	8	62,188
Other Impairment losses	20,985	–	–	–	20,985
Depreciation and amortisation	464,267	7,729	1,200	274	473,470
Capital expenditure	581,033	775	234	25,584	607,626

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 OPERATING SEGMENT INFORMATION *(Continued)*

#### (a) Segment information *(Continued)*

	PRC RMB' 000	USA RMB' 000	Europe RMB' 000	Other countries RMB' 000	Total RMB' 000
For the year ended 31 December 2018					
<b>Segment revenue</b>					
Total segment revenue	7,680,083	1,866,388	459,020	536,670	10,542,161
Inter-segment revenue	(2,279,964)	(58,697)	–	–	(2,338,661)
Revenue from external customers	5,400,119	1,807,691	459,020	536,670	8,203,500
Timing of revenue recognition					
At a point in time	5,400,119	1,807,691	459,020	536,670	8,203,500
<b>Segment results</b>	817,220	322,124	79,273	87,640	1,306,257
Unallocated other income					141,664
Unallocated other gains – net					192,107
Impairment losses on financial assets					(57,059)
Finance costs – net					(487,068)
Share of profits and losses of associates and joint ventures					15,884
Corporation and other unallocated expenses					(832,002)
Profit before income tax					279,783
<b>Segment assets</b>	5,579,604	57,343	45,411	131,621	5,813,979
Corporate and other unallocated assets					20,934,560
Total assets					26,748,539
<b>Other segment information</b>					
Reversal of provision recognised for decline in the value of inventories	(10,566)	–	–	–	(10,566)
Impairment losses on financial assets, net	57,196	(126)	(2)	(9)	57,059
Other Impairment losses	16,076	–	–	–	16,076
Depreciation and amortisation	460,900	8,596	1,218	310	471,024
Capital expenditure	678,077	12,172	992	125	691,366

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 OPERATING SEGMENT INFORMATION *(Continued)*

#### (b) Other geographical information

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

	As at 31 December	
	2019	2018
	RMB' 000	RMB' 000
PRC	4,768,785	4,714,493
USA	154,886	159,705
Europe	7,558	3,306
Other countries	26,154	20,296
	4,957,383	4,897,800

#### (c) Revenue from major products and services

	Year ended 31 December	
	2019	2018
	RMB' 000	RMB' 000
Wind gear transmission equipment	8,178,999	6,896,966
Industrial gear transmission equipment	1,486,917	1,298,567
Other products and services	56,980	7,967
	9,722,896	8,203,500

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 5 OPERATING SEGMENT INFORMATION *(Continued)*

#### (d) Information about major customers

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

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

Note

- (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	
	2019	2018
	RMB' 000	RMB' 000
Dividend income (Note (i))	30,449	83,176
Interest income (Note (ii))	47,602	36,919
Government grants (Note (iii))		
– Deferred income recognised (Note 34)	17,124	20,418
– Other government subsidies	46,083	15,654
Sale of scraps and materials	19,335	23,357
Gross fixed rental income	8,850	12,246
Others	12,864	18,109
	182,307	209,879

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 6 OTHER INCOME (Continued)

Note

- (i) Dividend income is received from financial assets at FVPL and at FVOCI.
- (ii) Interest income is derived from other financial assets at amortised cost.
- (iii) Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. There are no unfulfilled conditions or the contingencies attaching to these grants.

### 7 OTHER GAINS – NET

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Losses on disposal of property, plant and equipment, net	(25,818)	(1,442)
Gains on disposal of a subsidiary, net	–	69,362
Gains on disposal of joint ventures, net	1,469	–
Losses on disposal of associates, net	(5,093)	(583)
Foreign exchange gains, net	28,241	38,434
Net fair value gains on financial assets at FVPL (Note 27)	73,747	82,885
Impairment losses on property, plant and equipment	(8,003)	–
Others	–	3,451
	<b>64,543</b>	<b>192,107</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 8 EXPENSES BY NATURE

	Year ended 31 December	
	2019	2018
	RMB' 000	RMB' 000
Cost of inventories sold	6,408,722	5,522,586
Employee benefit expenses (Note 9)	1,359,689	1,253,724
Depreciation of property, plant and equipment	438,326	423,191
Depreciation of right-of-use assets	12,195	–
Amortisation of intangible assets	14,825	15,964
Amortisation of land lease prepayments	–	13,477
Auditors remuneration	3,600	4,000
Reversal of provision recognised for decline in the value of inventories (Note 24)	(1,838)	(10,566)
Other expenses	829,525	575,084
Total cost of sales, selling and distribution expenses, research and development costs and administrative expenses	9,065,044	7,797,460

### 9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2019	2018
	RMB' 000	RMB' 000
Wages and salaries	976,789	897,294
Pension scheme contributions	101,856	116,513
Other benefits	281,044	239,917
Total employee benefit expenses	1,359,689	1,253,724

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

#### (a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2018: three) directors whose emoluments are reflected in the analysis shown in Note 47. The emoluments payable to the remaining two individuals during the year ended 31 December 2018 are as follows:

	Year ended 31 December	
	2019	2018
	RMB' 000	RMB' 000
Salaries, allowances and other benefits	–	8,544
Pension scheme contributions	–	106
	–	8,650

The emoluments fell within the following bands:

	Number of individuals	
	2019	2018
HK\$3,500,001 to HK\$4,000,000	–	1
HK\$6,000,001 to HK\$6,500,000	–	1

### 10 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2019	2018
	RMB' 000	RMB' 000
<b>Finance income</b>		
Bank interest income	80,841	143,895
<b>Finance costs</b>		
Interest expense	(510,020)	(618,150)
Net foreign exchange losses	(2,010)	(12,813)
	(512,030)	(630,963)
<b>Finance costs – net</b>	<b>(431,189)</b>	<b>(487,068)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11 INCOME TAX EXPENSES

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Current income tax – charge for the year		
– PRC	85,021	17,234
– Hong Kong	12,545	13,103
– Others	669	–
Current income tax -under/(over) provision in respect of prior years	5,894	(10,254)
	104,129	20,083
Deferred tax	(41,699)	(9,302)
<b>Income tax expenses</b>	<b>62,430</b>	<b>10,781</b>

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Profit before income tax from continuing operations	416,077	279,783
Tax calculated at statutory tax rate of 25%	104,019	69,946
Tax effect of:		
– Lower tax rate enacted by local authority or different tax rates of subsidiaries in other jurisdictions	(12,385)	(42,834)
– Share of profit of investments accounted for using the equity method	(4,552)	(3,971)
– Other non-taxable income	(1,910)	(22,467)
– Non-deductible losses, expenses and costs	20,215	23,353
– Utilisation of previously unrecognised tax losses	(112,022)	–
– Tax losses for which no deferred income tax assets was recognised	60,234	16,270
– Temporary differences for which no deferred income tax assets was recognised in current year	15,137	12,963
– Additional deduction of research and development expenses	(26,849)	(33,693)
– Withholding tax at 5% on the undistributed earnings of the PRC subsidiaries	14,649	1,468
– Under/(over) provision in respect of prior years	5,894	(10,254)
	62,430	10,781

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 11 INCOME TAX EXPENSES *(Continued)*

#### (a) PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2018: 25%) on the taxable profits of the Group's PRC subsidiaries for the year ended 31 December 2019.

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

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

#### (b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2019.

#### (c) Other corporate income tax

Other corporate income tax has been provided at the rate of 8.5% to 18.5% (2018:17%-18.5%) on the estimated assessable profits arising from the jurisdictions at which the entities are operated.

#### (d) Withholding tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to 5% withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. The aggregate amount of temporary differences associated with unremitted earnings of RMB6,746 million (31 December 2018: RMB6,485 million) of investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately RMB337 million as at 31 December 2019 (2018: RMB324 million), that in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 12 EARNINGS PER SHARE

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Profit from continuing operations attributable to the owners of the Company	367,426	282,805
Profit/(loss) from discontinued operations	70,762	(74,404)
Net profit attributable to owners of the Company	438,188	208,401
Weighted average number of ordinary shares outstanding for basic earnings per share (' 000)	1,635,291	1,635,291
Basic earnings per share (RMB per share)		
– From continuing operations attributable to the ordinary equity holders of the Company	0.225	0.173
– From discontinued operations	0.043	(0.045)
	0.268	0.128

No adjustment is made to the diluted earnings per share for the years ended 31 December 2019 and 31 December 2018 as there was no potential dilutive shares in issue.

### 13 DIVIDENDS

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Final proposed – HK 20 cents (2018: HK 8 cents) per share	292,972	114,994

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

The final dividend in respect of the year ended 31 December 2018 was proposed by the directors of the Company on 29 March 2019, and subsequently approved at the Company's annual general meeting on 24 May 2019 and recognised as distribution during the year ended 31 December 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14 PROPERTY, PLANT AND EQUIPMENT

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 14 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Freehold land and buildings RMB' 000	Leasehold improvements RMB' 000	Machinery and equipment RMB' 000	Furniture and fixtures RMB' 000	Transportation equipment RMB' 000	Construction in progress RMB' 000	Total RMB' 000
<b>At 1 January 2019</b>							
Cost	1,581,315	18,842	4,633,951	257,452	288,916	903,118	7,683,594
Accumulated depreciation	(345,347)	(7,125)	(3,133,796)	(170,427)	(197,993)	-	(3,854,688)
Impairment losses	(1,259)	-	(190)	-	-	(12,174)	(13,623)
<b>Net book amount</b>	<b>1,234,709</b>	<b>11,717</b>	<b>1,499,965</b>	<b>87,025</b>	<b>90,923</b>	<b>890,944</b>	<b>3,815,283</b>
<b>For the year ended 31 December 2019</b>							
Opening net book amount	1,234,709	11,717	1,499,965	87,025	90,923	890,944	3,815,283
Transferred from construction in progress	151,330	6,850	562,218	15,687	36,151	(772,236)	-
Other additions	275	4,771	1,362	1,344	535	491,917	500,204
Acquisition of a subsidiary (Note 42)	80,967	-	88,885	68	599	5,698	176,217
Depreciation	(53,120)	(6,555)	(356,619)	(13,870)	(16,286)	-	(446,450)
Disposals	(7,503)	-	(53,563)	(3,181)	(2,042)	-	(66,289)
Currency translation differences	1,879	-	371	438	8	(3)	2,693
Impairment losses provided for the year	-	-	-	-	-	(8,003)	(8,003)
<b>Closing net book amount</b>	<b>1,408,537</b>	<b>16,783</b>	<b>1,742,619</b>	<b>87,511</b>	<b>109,888</b>	<b>608,317</b>	<b>3,973,655</b>
<b>At 31 December 2019</b>							
Cost	1,803,531	30,463	5,037,205	252,526	313,754	628,494	8,065,973
Accumulated depreciation	(393,735)	(13,680)	(3,294,586)	(165,015)	(203,866)	-	(4,070,882)
Impairment losses	(1,259)	-	-	-	-	(20,177)	(21,436)
<b>Net book amount</b>	<b>1,408,537</b>	<b>16,783</b>	<b>1,742,619</b>	<b>87,511</b>	<b>109,888</b>	<b>608,317</b>	<b>3,973,655</b>

The Group is in the process of obtaining property certificates for the buildings above with a carrying amount of RMB790,264 thousands (2018: RMB820,617 thousands) at the end of the reporting period.

The freehold land is located in the USA.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15(a) LAND LEASES PREPAYMENTS

As at 31 December 2018, the cost of land lease prepayments and accumulated amortisation was RMB615,710 thousands and RMB72,423 thousands respectively. The carrying amount of land lease prepayments are reclassified as right-of-use assets at 1 January 2019 upon the application of IFRS 16.

	Land use rights RMB' 000
<b>At 1 January 2018</b>	
Cost	778,086
Accumulated amortisation	(93,990)
Net book amount	684,096
<b>For the year ended 31 December 2018</b>	
Opening net book amount	684,096
Additions	91,755
Disposal of a subsidiary	(81,296)
Transferred to disposal group classified as held-for-sale	(134,776)
Amortisation	(16,492)
Closing net book amount	543,287
<b>At 31 December 2018</b>	
Cost	615,710
Accumulated amortisation	(72,423)
Net book amount	543,287
Net book amount represented:	
– Current portion	11,486
– Non-current portion	531,801
	543,287

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 15(b) RIGHT-OF-USE ASSETS

	Land use rights RMB' 000
<b>At 1 January 2019</b>	
Cost	615,710
Accumulated amortisation	(72,423)
<b>Net book amount</b>	<b>543,287</b>
<b>For the year ended 31 December 2019</b>	
Opening net book amount	543,287
Additions	82,390
Acquisition of a subsidiary (Note 42)	45,460
Amortisation	(12,195)
<b>Closing net book amount</b>	<b>658,942</b>
<b>At 31 December 2019</b>	
Cost	748,827
Accumulated amortisation	(89,885)
<b>Net book amount</b>	<b>658,942</b>

The land use rights are located in the PRC. At 31 December 2019, the Group is in the process of obtaining certain land use rights certificates with a carrying amount of RMB237,442 thousands (2018: RMB247,655 thousands).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16 GOODWILL

	RMB' 000
<b>At 1 January 2018</b>	
Cost	17,715
Accumulated impairment	(14,724)
<b>Net carrying amount</b>	<b>2,991</b>
<b>For the year ended 31 December 2018</b>	
Opening net carrying amount	2,991
Addition from acquisition of a subsidiary (Note 42)	272
Transferred to disposal group classified as held-for-sale (Note 29)	(2,991)
<b>Closing net carrying amount</b>	<b>272</b>
<b>At 31 December 2018</b>	
Cost	272
Accumulated impairment	–
<b>Net carrying amount</b>	<b>272</b>
<b>For the year ended 31 December 2019</b>	
Opening net carrying amount	272
Addition from acquisition of a subsidiary (Note 42)	26,142
<b>Closing net carrying amount</b>	<b>26,414</b>
<b>At 31 December 2019</b>	
Cost	26,414
Accumulated impairment	–
<b>Net carrying amount</b>	<b>26,414</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 16 GOODWILL (Continued)

#### Impairment testing of goodwill

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

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Lighting Engineering CGU	272	272
Wind Gear Transmission Equipment CGU	26,142	–
	26,414	272

#### (a) Lighting Engineering CGU

The recoverable amount of the lighting engineering CGU was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 11% (2018: 11%) and cash flows beyond the five-year period were extrapolated using a growth rate of 5% (2018: 5%), which was the same as the long term average growth rate of the infrastructure industry.

#### (b) Wind Gear Transmission Equipment CGU

The recoverable amount of the wind gear transmission equipment CGU was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 16% and cash flows beyond the five-year period were extrapolated using a growth rate of 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 2018. 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 2018 was impaired.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 17 INTANGIBLE ASSETS

	Technology know-how RMB' 000	Research and development costs RMB' 000	Total RMB' 000
<b>At 1 January 2018</b>			
Cost	39,322	700,938	740,260
Accumulated amortisation	(16,355)	(633,523)	(649,878)
Impairment	(14,342)	(38,165)	(52,507)
Net book amount	8,625	29,250	37,875
<b>For the year ended 31 December 2018</b>			
Opening net book amount	8,625	29,250	37,875
Disposal of subsidiaries	(3,591)	–	(3,591)
Amortisation	(1,037)	(16,272)	(17,309)
Transferred to disposal group classified as held-for-sale	(3,997)	308	(3,689)
Impairment reversed	–	1,539	1,539
Closing net book amount	–	14,825	14,825
<b>At 31 December 2018</b>			
Cost	–	650,522	650,522
Accumulated amortisation	–	(635,697)	(635,697)
Net book amount	–	14,825	14,825
<b>For the year ended 31 December 2019</b>			
Opening net book amount	–	14,825	14,825
Amortisation	–	(14,825)	(14,825)
Closing net book amount	–	–	–
<b>At 31 December 2019</b>			
Cost	–	650,522	650,522
Accumulated amortisation	–	(650,522)	(650,522)
Net book amount	–	–	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18 SUBSIDIARIES

Particulars of major subsidiaries of the Group are as follows:

Company	Place and date of incorporation and operation	Registered capital	Percentage of equity held by the Group		Principal activities
			2019	2018	
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	People's Republic of China ("PRC") 16 August 2001	RMB693,800,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed")	PRC 8 July 2003	RMB2,000,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Ningkai Mechanical Co., Ltd.	PRC 19 November 2002	RMB41,077,000	85.83	85.83	Engineering processing and manufacturing
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive")	PRC 27 March 2007	USD500,644,000	100	100	Investment holding and sale of gear box and fittings
China Transmission Holdings Limited	Hong Kong 7 November 2007	HKD100	100	100	Investment holding and sale of gear box and fittings
Nanjing Handa Import and Export Trading Co., Ltd.	PRC 25 April 2012	RMB41,000,000	100	100	Trading business
Nanjing Gaote Gearbox Manufacturing Co., Ltd.	PRC 26 November 2003	USD42,393,264	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Maifala Information Technology Co., Ltd.	PRC 22 April 2016	RMB10,000,000	100	100	Sale of gear, gear box and fittings
Nanjing High Accurate Rail Transportation Equipment Co., Ltd.	PRC 20 July 2011	RMB20,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Jiuyi Heavy Gearbox Manufacturing Co., Ltd.	PRC 27 July 2011	RMB250,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Tianjin Chuanzai Jingtong Financial Lease Co., Ltd.*	PRC 23 December 2013	USD29,800,000	46.96	46.96	Rendering of financial lease services
NGC (Baotou) Transmission Equipment Co., Ltd. (formerly known as "Guodian United Power Technology (Baotou) Co., Ltd. ").**	PRC 7 January 2009	RMB260,000,000	100	-	Manufacture and sale of gear, gear box and fittings

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 18 SUBSIDIARIES *(Continued)*

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

- \* As at 31 December 2019, Tianjin Chuanzai Jintong Financial Leasing Co., Ltd. (“Tianjin Chuanzai”) was considered as a subsidiary of the Group even though the Group has only 46.96% ownership interest. Based on the contractual arrangements between the Group and other investor, the Group has the power to appoint and remove the majority of the board of directors of Tianjin Chuanzai that has the power to direct the relevant activities of Tianjin Chuanzai. Therefore, the directors of the Company concluded that the Group has control over Tianjin Chuanzai.
  
- \*\* In February 2019, the 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. Further details are included in Note 42 to the consolidated financial statements.

The English names of the above disclosed subsidiaries are for identification purpose only.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2019	2018
	RMB' 000	RMB' 000
<b>Associates</b>		
– Share of net assets	145,532	201,609
– Goodwill on acquisition	6,710	6,710
– Capital contribution to an associate	37,016	20,555
– Impairment	(13,457)	–
	175,801	228,874
<b>Joint ventures</b>		
– Share of net assets	111,210	189,945
	287,011	418,819

The amounts recognised in the share of profit/(loss) of investments accounted for using the equity method for continuing operations in the consolidated income statement are as follows:

	Year ended 31 December	
	2019	2018
	RMB' 000	RMB' 000
Associates	2,365	11,145
Joint ventures	15,844	31,063
Impairment losses provided for an associate	(13,457)	–
Impairment losses provided for a joint venture	–	(26,324)
	4,752	15,884

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

#### (a) Investment in associates

	2019 RMB' 000	2018 RMB' 000
<b>As at 1 January</b>	<b>228,874</b>	<b>158,014</b>
Additions	–	120,734
Capital contributions to an associate	16,461	9,447
Share of profit from continuing operations	2,365	11,145
Share of loss from discontinued operations	–	(3,100)
Impairment provision for an associate	(13,457)	–
Cash dividends distributions	(21,800)	(5,897)
Disposal of associates (Note (i))	(36,642)	(583)
Transferred to disposal group classified as held-for-sale	–	(60,886)
<b>As at 31 December</b>	<b>175,801</b>	<b>228,874</b>

#### Note

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

Principal activities of a material associate as at 31 December 2019 and 2018 is as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Principal activities	Measurement method
		2019	2018		
Zhongbang Finance Leasing (Jiangsu) Co., Ltd. ("Zhongbang Finance Leasing")	PRC	37.21	37.21	Finance leasing	Equity

Further details of the financial guarantees granted to an associate are given in Note 43(b) to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

#### (a) Investment in associates *(Continued)*

Summarised financial information for a material associate

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Zhongbang Finance Leasing</b>		
<b>Current</b>		
Cash and cash equivalents	129	370
Other current assets (excluding cash)	104,924	156,003
<b>Total current assets</b>	<b>105,053</b>	<b>156,373</b>
<b>Total current liabilities</b>	<b>(55,393)</b>	<b>(67,634)</b>
<b>Non-current</b>		
Non-current assets	277,948	241,109
Non-current liabilities	–	(550)
<b>Net assets</b>	<b>327,608</b>	<b>329,298</b>
Percentage of ownership interest	37.21%	37.21%
<b>Carrying value of investment</b>	<b>121,903</b>	<b>122,532</b>

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Revenue	3,319	36,739
Post-tax (loss)/profit	(1,690)	10,757
Total comprehensive (loss)/income	(1,690)	10,757
Dividends declared by an associate	–	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

#### (a) Investment in associates *(Continued)*

##### Summarised financial information for other associates

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Aggregate carrying value of investments	53,898	106,342
Aggregate amounts of the Group's share of:		
– Profit for the year	2,994	4,042
– Total comprehensive income	2,994	4,042

#### (b) Investment in joint ventures

	2019 RMB' 000	2018 RMB' 000
As at 1 January	189,945	99,958
Addition (Note (i))	–	85,248
Share of profit	15,844	31,063
Impairment losses provided for during the year	–	(26,324)
Disposal (Note (ii))	(94,579)	–
As at 31 December	111,210	189,945

##### Note

- (i) In December 2018, the Group disposed its 70% equity interest in Jiangsu An Rhonda Health Industry Development Co., Ltd. ("An Rhonda"), the fair value of the remaining 30% equity interest held is classified as investment in a joint venture upon the disposal.
- (ii) On 22 January 2019, the Group entered into an agreement with an independent third party to dispose of its 50% equity interest in a joint venture, Shandong Energy Machinery Group Zhong-Chuan Heavy Duty Mine Equipment Manufacturing Co., Ltd, at a total cash consideration of RMB10,800 thousands, which is approximate to its carrying value at the disposal date. The previous period impairment provision of RMB26,324 thousands was recognised against the book value of long-term equity investment of RMB37,124 thousands (before impaired).

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

#### (b) Investment in joint ventures *(Continued)*

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

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Principal activities	Measurement method
		2019	2018		
Nanjing High Accurate Construction Equipment Co., Ltd. ("Nanjing Construction")	PRC	50	50	Metallurgical engineering and manufacturing	Equity

#### Summarised financial information for a material joint venture

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Nanjing Construction</b>		
<b>Current</b>		
Cash and cash equivalents	77,744	90,461
Other current assets (excluding cash)	566,368	608,638
<b>Total current assets</b>	<b>644,112</b>	<b>699,099</b>
<b>Total current liabilities</b>	<b>(424,198)</b>	<b>(514,245)</b>
<b>Non-current</b>		
Non-current assets	2,505	2,938
<b>Net Assets</b>	<b>222,419</b>	<b>187,792</b>
Percentage of ownership interest	50%	50%
<b>Carrying value of investment</b>	<b>111,210</b>	<b>93,896</b>
	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Revenue	452,278	621,340
Post-tax profit	34,627	59,497
Total comprehensive income	34,627	59,497
Dividends declared by the joint venture	–	–

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

#### (b) Investment in joint ventures *(Continued)*

##### Summarised financial information for other joint ventures

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Aggregate carrying value of investments	–	96,049
Aggregate amounts of the Group's share of:		
– (Loss)/profit for the year	(1,469)	1,315
– Total comprehensive (loss)/income	(1,469)	1,315

### 20 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

	Note	As at 31 December	
		2019 RMB' 000	2018 RMB' 000
<b>Financial assets</b>			
Financial assets at amortised cost			
– Trade receivables	25	2,378,101	4,445,523
– Other receivables	25	2,102,473	957,410
– Other financial assets at amortised cost	21	803,877	723,188
– Pledged bank deposits	28	2,642,560	2,922,234
– Cash and cash equivalents	28	2,520,415	2,062,624
Financial assets at FVOCI	22	5,378,733	3,916,910
Financial assets at FVPL	27	795,032	2,512,196
		16,621,191	17,540,085
<b>Financial liabilities</b>			
Liabilities at amortised cost:			
– Trade and other payables	32	6,673,498	6,958,747
– Borrowings and corporate bonds	33	5,237,448	7,372,957
		11,910,946	14,331,704

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 20 FINANCIAL ASSETS AND FINANCIAL LIABILITIES *(Continued)*

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3.1. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

### 21 OTHER FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortised cost include the following debt investments:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Non-current assets</b>		
Insurance investment (Note (i))	549,827	517,327
<b>Current assets</b>		
Corporate bonds (Note (ii))	254,050	205,861
	<b>803,877</b>	<b>723,188</b>

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

(ii) On 26 April 2018, the Group acquired a corporate bond, issued by one of the Group's related parties in prior years, from an independent third party with the amount of approximately RMB205,861 thousands.

In 2019, the Group acquired another corporate bond from independent third parties with the amount of approximately RMB34,189 thousands.

As at 31 December 2019, the carrying amount of corporate bonds was RMB254,050 thousands which were settled subsequent to the end of the reporting period.

(iii) Impairment and risk exposure

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

All of the financial assets at amortised cost are denominated in RMB currency units. As a result, there is no exposure to foreign currency risk. There is also no exposure to price risk as the investments will be held to maturity.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

#### (i) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise:

- Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Non-current assets</b>		
Listed equity investments at FVOCI (Note(ii))	355,231	292,507
Unlisted equity investments at FVOCI (Note(ii))	2,242,588	2,255,947
	<b>2,597,819</b>	<b>2,548,454</b>
<b>Current assets</b>		
Unlisted equity investments at FVOCI	2,505	2,665
Debt investments at FVOCI (Note(iii))	2,778,409	1,365,791
	<b>2,780,914</b>	<b>1,368,456</b>
	<b>5,378,733</b>	<b>3,916,910</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (ii) Equity investments at FVOCI

##### (a) Listed equity investments

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Riyue Heavy Industry Co., Ltd.	326,729	280,209
Guodian Technology & Environment Group Co., Ltd.	10,814	12,298
China PengFei Group Limited	17,688	–
	<b>355,231</b>	<b>292,507</b>

The balances represent the fair values of equity shares of a portfolio of Hong Kong and Shanghai listed securities based on the closing prices of these securities quoted on the stock exchange of Hong Kong and Shanghai on that date. The directors of the Company consider that the closing prices of these securities are the fair values of the investments.

##### (b) Unlisted equity investments

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Zhejiang Zheshang Chanrong Equity Investment Fund L.P. *	2,027,647	2,048,879
Jiangsu Zhong Bang Business Factoring Co., Ltd.	46,719	119,070
Su Yin Financial Leasing Co., Ltd.	161,740	82,147
Others	6,482	5,851
	<b>2,242,588</b>	<b>2,255,947</b>

\* On 17 April 2017, Nanjing Drive entered into a limited partnership agreement with thirty-four other partners in respect of the establishment of a permanent investment fund in the PRC named Zhejiang Zheshang Chanrong Equity Investment Fund L.P. (“Zhejiang Zheshang Chanrong”) and the subscription of interest therein. Pursuant to the limited partnership agreement, the full registered capital contribution to the investment fund is RMB65,910,000 thousands, among which, RMB2,000,000 thousands was contributed by Nanjing Drive as a limited partner, which had been paid up by Nanjing Drive to the investment fund.

As at 31 December 2019, the investment in Zhejiang Zheshang Chanrong had a fair value of RMB2,027,647 thousands (2018: RMB2,048,879 thousands) and the fair value loss of RMB21,232 thousands (year ended 31 December 2018: fair value gain of RMB48,879 thousands) was recognised in OCI for the year ended 31 December 2019.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (iii) Debt investments at FVOCI

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Bills receivable	2,778,409	1,365,791

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

For the year ended 31 December 2019, fair value change of RMB9,006 thousands (year ended 31 December 2018: RMB15,317 thousands) for bills receivable measured at FVOCI are recognised in OCI.

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

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Gains/(losses) recognised in other comprehensive income	137,281	(70,202)
Dividends from equity investments held at FVOCI recognised in profit or loss in other income	7,641	46,901

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

(v) **Current assets pledged as security**

Refer to Note 41 for information on current assets pledged as security by the Group.

(vi) **Fair value, impairment and risk exposure**

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

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

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

All of the financial assets at FVOCI are denominated in RMB. For an analysis of the sensitivity of the assets to price and interest rate risk, refer to Note 3.1(a).

### 23 DEPOSITS FOR LAND LEASES

The amount represents deposits for land leases paid partly in relation to the acquisition of land use rights and the transfer is subject to the approval of the local government. During the year ended 31 December 2019, deposits for land lease amounted to RMB40,910 thousands (2018: nil) has been transferred to right-of-use assets.

### 24 INVENTORIES

	As at 31 December	
	2019	2018
	RMB' 000	RMB' 000
Raw materials	441,256	416,984
Work in progress	1,149,900	971,305
Finished goods	977,413	924,712
	<b>2,568,569</b>	<b>2,313,001</b>

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB7,789,841 thousands (2018: RMB6,683,077 thousands).

Reversal of provision recognised for decline in the value of inventories amounted to RMB1,838 thousands (2018: RMB10,566 thousands). These were recognised in "cost of sales" in profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Trade receivables		
– Amounts due from third parties	2,904,710	4,949,044
– Amounts due from joint ventures (Note 43(c))	9,553	32,867
	2,914,263	4,981,911
Less: Impairment provision	(536,162)	(536,388)
	2,378,101	4,445,523
Deposits and other receivables		
– Amounts due from third parties	2,336,404	779,774
– Amounts due from associates (Note 43(c))	237,687	92,538
– Amounts due from joint ventures (Note 43(c))	445	15,125
– Amount due from a fellow subsidiary (Note 43(c))	–	93,482
	2,574,536	980,919
Less: Impairment provision	(472,063)	(23,509)
	2,102,473	957,410
Value-added tax recoverable	123,956	27,283
	2,226,429	984,693
	4,604,530	5,430,216



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 TRADE AND OTHER RECEIVABLES *(Continued)*

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

All of the amounts due from the Group's joint ventures and associates are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.

As at 31 December 2019, other receivables mainly include a deposit for land lease amounting to RMB75,000 thousands, other receivables from the former subsidiaries of the bundle transaction of RMB1,003,834 thousands, and overdue beneficial interests of the trust of RMB512,813 thousands that is reclassified from financial assets at FVPL to other receivables at maturity.

In 2018, the Group acquired the beneficial interest of the trust from an independent third party in the amount of RMB483,315 thousands, which was overdue as at 31 December 2019. The group does not intend to renew the terms of the debt investments with the independent third party and classify it from financial assets at FVPL into other receivables. The trust agreed to pay back the investment in 2020.

#### (i) Fair values of trade and other receivables

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

#### (ii) Impairment and risk exposure

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

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk are disclosed in Note 3.1.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 TRADE AND OTHER RECEIVABLES *(Continued)*

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

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

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Less than 90 days	1,826,916	3,039,728
90 to 180 days	96,585	499,216
181 to 365 days	217,652	424,881
1 – 2 years	143,111	328,927
Over 2 years	93,837	152,771
	<b>2,378,101</b>	<b>4,445,523</b>

The movements in loss allowance of trade receivables are as follows:

	2019 RMB' 000	2018 RMB' 000
As at 1 January	(536,388)	(576,098)
Amounts restated through opening retained earnings	–	(64,322)
Transferred to disposal group classified as held-for-sale	–	131,187
Impairment losses recognised during the year, net	(18,853)	(34,937)
Amounts written off as uncollectible	19,079	7,782
As at 31 December	<b>(536,162)</b>	<b>(536,388)</b>

The ageing analysis of other receivables (excluding value-added tax recoverable) as at the end of the reporting period, based on due date, is as follows:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Less than 1 year	2,074,272	924,615
Over 1 year	28,201	32,795
	<b>2,102,473</b>	<b>957,410</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 25 TRADE AND OTHER RECEIVABLES *(Continued)*

#### (iii) Transfers of financial assets

The following were the Group's bills receivable accepted by banks in the PRC (the "Endorsed Bills") that were endorsed to certain of the Group's suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled.

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

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Carrying amount of transferred assets	199,687	31,009
Carrying amount of associated liabilities	(199,687)	(31,009)

### 26 PREPAYMENTS

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Prepayments		
– Amounts due from third parties	275,099	336,869
– Amounts due from joint ventures (Note 43(c))	195	–
– Amounts due from associates (Note 43(c))	7,108	40,322
Less: Impairment	(26,796)	(15,340)
	255,606	361,851

The movements in loss allowances of prepayments are as follows:

	2019 RMB' 000	2018 RMB' 000
As at 1 January	(15,340)	(73,258)
Impairment losses (recognised)/reversed during the year, net	(12,982)	7,637
Transferred to disposal group classified as held-for-sale	–	50,281
Amounts written off as uncollectible	1,526	–
As at 31 December	(26,796)	(15,340)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

The Group classifies the following financial assets at FVPL:

- Debt investments that do not qualify for measurement at either amortised cost (Note 21) or FVOCI (Note 22);
- Equity investments that are held for trading; and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Non-current assets</b>		
Derivatives instrument measured at FVPL (a)	541,900	518,602
<b>Current assets</b>		
Structured bank deposits (b)	155,480	947,150
Trade receivables measured at FVPL (c)	86,340	551,057
Unlisted debt investments	1,500	485,072
Unlisted equity investments	9,812	10,315
	253,132	1,993,594
	795,032	2,512,196

#### (a) Derivatives financial instrument

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

##### (a) Derivatives financial instrument *(Continued)*

The separate derivative derived from the investment in Guiman Fund was measured at FVPL because the investment income would be guaranteed by the other limited partner, Ningbo Zhongbang, due to the accumulated losses of Guiman Fund as at 31 December 2019 and 2018.

##### (b) Structured bank deposits

As at 31 December 2019, structured bank deposits of RMB155,480 thousands (2018: RMB947,150 thousands) represented financial instruments placed by the Group to two banks in the PRC for a term within one year. The contract guarantees principal and proceeds are related to the performance of the three-month LIBOR USD rate on the international market. Parts of the structured bank deposits amounted to RMB104,176 thousands (2018: RMB276,717 thousands) were redeemed subsequent to the end of the reporting period.

##### (c) Trade receivables measured at FVPL

On 3 September 2018, the Group entered into two agreements with ING BANK N.V. (“ING”) to sell all of its eligible trade receivables under certain customers and all right, title, interest and benefit the Group has in each such eligible trade receivables on a non-recourse basis without the need for any further action or documentation on the part of the Group or ING, at a discount calculated based on the base rate and number of days for early payment as specified in the agreements.

On 31 December 2019, such trade receivables held solely for selling purpose amounting to RMB86,340 thousands (2018: RMB551,057 thousands) were classified as financial assets at FVPL. For the year ended 31 December 2019, fair value change of RMB664 thousands (2018: RMB7,243 thousands) for trade receivables measured at FVPL are recognised in ‘other gains – net’.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

#### (ii) Amounts recognised in profit or loss

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Fair value gains on equity investments at FVPL recognised in other gains – net (Note 7)	22,796	45,658
Fair value gains on debt investments at FVPL recognised in other gains – net (Note 7)	50,951	37,227
Dividends from equity investment held at FVPL	22,808	36,275
	96,555	119,160

#### (iii) Risk exposure and fair value measurements

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

### 28 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Cash at banks and on hand	5,162,975	4,984,858
Less: Pledged bank deposits	(2,642,560)	(2,922,234)
Cash and cash equivalents	2,520,415	2,062,624

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The bank balances and pledged deposits are deposited in credit-worthy banks with no recent history of default.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE

On 19 July 2018, the Group entered into an equity transfer agreement with an independent third party to dispose of its entire 75% equity interests in CHSTE (Beijing) Shougao Metallurgic Engineering & Equipment Co., Ltd. (“Beijing Shougao”) for a cash consideration of nominal amount RMB1. The disposal was completed on 30 November 2018.

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

The above companies are engaged in the manufacturing and sales of non-core business segment that the Group would discontinue and therefore were classified as discontinued operations. Accordingly, the operating results for the above companies and the gains arises from the disposal were separately presented as profit/(loss) from discontinued operations in the consolidated income statement up to the disposal date in 2019 and for the year ended 31 December 2018. As at 31 December 2018, the assets and liabilities related to the Bundle Transaction have been presented as assets/liabilities of disposal group classified as held-for-sale.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 DISCONTINUED OPERATIONS AND ASSETS/LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE *(Continued)*

#### (a) Financial performance

	From 1 January 2019 to the date of disposal RMB' 000	From 1 January 2018 to 31 December 2018 RMB' 000
Gross profit	3,917	43,668
Selling and distribution expenses	(8,276)	(20,273)
Administrative expenses	(36,686)	(64,818)
Research and development costs	(2,576)	(10,251)
Net (impairment loss)/reversal of impairment loss on financial assets	(4,999)	8,432
Other income	(9,573)	(691)
Other losses – net	(9,146)	(8,983)
<b>Operating loss</b>	<b>(67,339)</b>	<b>(52,916)</b>
Finance costs – net	(4,831)	(21,352)
Share of net loss of associates accounted for using equity method	(4,078)	(3,100)
<b>Loss before income tax</b>	<b>(76,248)</b>	<b>(77,368)</b>
Income tax credit	269	472
<b>Loss after income tax of discontinued operations</b>	<b>(75,979)</b>	<b>(76,896)</b>
Gain on disposal of discontinued operation after income tax	139,943	14,366
<b>Gain/(loss) from discontinued operations</b>	<b>63,964</b>	<b>(62,530)</b>
<b>Other comprehensive income/(loss)</b> <i>Items that will not be reclassified to profit or loss</i>		
Changes in the fair value of equity investments at FVOCI	2,967	(4,455)
Income tax relating to these items	(742)	1,114
	<b>2,225</b>	<b>(3,341)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 DISCONTINUED OPERATION AND ASSETS/LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (Continued)

#### (b) Cashflow information

	From 1.1.2019 to the date of disposal RMB' 000	From 1.1.2018 to 31.12.2018 RMB' 000
Net cash inflows/(outflows) from operating activities	6,057	(21,520)
Net cash inflows/(outflows) from investing activities	36,696	(10,831)
Net cash (outflows)/inflows from financing activities	(53,103)	23,590
Net decrease in cash and cash equivalents	(10,350)	(8,761)

#### (c) Details of the disposal of discontinued operations

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

	2019 RMB' 000	2018 RMB' 000
Property, plant and equipment	417,859	3,266
Right-of-use assets	113,732	-
Intangible assets	4,034	3,591
Investments in associates	56,808	-
Deferred tax assets	2,325	-
Goodwill	2,991	-
Financial assets at FVOCI	2,000	-
Inventories	310,151	90,338
Trade and bills receivable	90,308	106,542
Other receivable	265,637	-
Prepayments	29,872	-
Pledged bank deposits	12,019	-
Cash and cash equivalents	14,907	2,972
Borrowings	(137,125)	-
Trade and bills payables	(134,974)	(101,286)
Contract liabilities	(22,775)	(72,480)
Other payables	(315,910)	(51,986)
Amounts due to group companies	(1,002,494)	-
Deferred tax liabilities	(23,493)	-
Net liabilities disposed of	(314,128)	(19,043)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 DISCONTINUED OPERATION AND ASSETS/LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE *(Continued)*

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

	2019 RMB' 000	2018 RMB' 000
Total consideration for the disposal	299,432	–
Net liabilities disposed of	314,128	19,043
Non-controlling interests	(68,378)	(4,677)
Impairment of other receivables from subsidiaries of the Bundle Transaction	(405,239)	–
Gain on disposal of discontinued operations	139,943	14,366

An analysis of the net cash inflow/(outflow) in respect of the disposal of discontinued operations is as follows:

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Total consideration	299,432	–
Less: consideration receivables	(179,546)	–
Less: cash and cash equivalents in the subsidiaries disposed of	(14,907)	(2,972)
Net cash inflow/(outflow) from the disposal	104,979	(2,972)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 29 DISCONTINUED OPERATION AND ASSETS/LIABILITIES OF DISPOSAL GROUP CLASSIFIED AS HELD-FOR-SALE (Continued)

#### (d) Assets and liabilities of disposal group classified as held-for-sale

	As at 31 December 2019 RMB' 000	As at 31 December 2018 RMB' 000
<b>Assets of disposal group classified as held-for-sale</b>		
Property, plant and equipment	–	518,899
Land lease prepayment	–	134,776
Intangible assets	–	3,689
Deferred tax assets	–	2,963
Goodwill	–	2,991
Financial asset at FVOCI	–	31,349
Pledged bank deposits	–	19,066
Cash and cash equivalents	–	25,257
Other current assets	–	443,368
	–	1,182,358
<b>Liabilities of disposal group classified as held-for-sale</b>		
Borrowings	–	181,125
Deferred tax liabilities	–	24,570
Contract liabilities	–	108,098
Other current liabilities	–	188,522
	–	502,315

### 30 SHARE CAPITAL

	Number of ordinary shares ' 000	Equivalent nominal value of ordinary shares RMB' 000
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	1,635,291	119,218

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The par value of ordinary share is USD0.01 each.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 31 RESERVES

	Share premium	Deemed capital contribution reserve	Statutory surplus reserve	Capital reserve	Investment revaluation reserve	FVOCI reserve	Other 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	RMB' 000	RMB' 000	RMB' 000
Balance at 1 January 2018	4,358,785	77,651	835,564	143,249	247,644	-	52,335	(5,049)	5,710,179	5,075,565	10,785,744
Changes in accounting policies	-	-	-	-	(247,644)	208,097	-	-	(39,547)	16,435	(23,112)
Restated total reserves at											
1 January 2018	4,358,785	77,651	835,564	143,249	-	208,097	52,335	(5,049)	5,670,632	5,092,000	10,762,632
Profit for the year	-	-	-	-	-	-	-	-	-	208,401	208,401
Other comprehensive loss											
for the year:											
- Change in fair value of financial assets at FVOCI, net of tax	-	-	-	-	-	(54,830)	-	-	(54,830)	-	(54,830)
- Currency translation differences	-	-	-	-	-	-	-	(4,486)	(4,486)	-	(4,486)
Total comprehensive income for the year	-	-	-	-	-	(54,830)	-	(4,486)	(59,316)	208,401	149,085
Final 2017 dividend declared	(239,103)	-	-	-	-	-	-	-	(239,103)	-	(239,103)
Appropriation to statutory reserve	-	-	41,856	-	-	-	-	-	41,856	(41,856)	-
Balance at 31 December 2018	4,119,682	77,651	877,420	143,249	-	153,267	52,335	(9,535)	5,414,069	5,258,545	10,672,614

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 31 RESERVES (Continued)

	Share premium	Deemed capital contribution reserve	Statutory surplus reserve	Capital reserve	FVOCI reserve	Other 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	RMB' 000	RMB' 000
Balance at 1 January 2019	4,119,682	77,651	877,420	143,249	153,267	52,335	(9,535)	5,414,069	5,258,545	10,672,614
Profit for the year	-	-	-	-	-	-	-	-	438,188	438,188
Other comprehensive income/(loss) for the year:										
- Change in fair value of financial assets at FVOCI, net of tax	-	-	-	-	99,050	-	-	99,050	-	99,050
- Currency translation differences	-	-	-	-	-	-	(7,033)	(7,033)	-	(7,033)
Total comprehensive income for the year	-	-	-	-	99,050	-	(7,033)	92,017	438,188	530,205
Final 2018 dividend declared (Note 13)	(114,994)	-	-	-	-	-	-	(114,994)	-	(114,994)
Disposal of financial assets at FVOCI	-	-	-	-	(93,525)	-	-	(93,525)	93,525	-
Appropriation to statutory reserve	-	-	4,105	-	-	-	-	4,105	(4,105)	-
Balance at 31 December 2019	4,004,688	77,651	881,525	143,249	158,792	52,335	(16,568)	5,301,672	5,786,153	11,087,825

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on pages 62 to 63 of the consolidated financial statements.

#### (a) Share premium

The share premium represents the excess of the proceeds received upon issuance and allotment of the Company's shares over their nominal values.

#### (b) Deemed capital contribution reserve

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 31 RESERVES (Continued)

#### (c) Statutory surplus reserve

In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit as determined in accordance with relevant statutory rules and regulations applicable to enterprises established in the PRC (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

#### (d) Capital reserve

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

#### (e) FVOCI reserve

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in Note 2.13. These changes are accumulated in the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

The Group also has certain debt investments measured at FVOCI, as explained in Note 22. For these investments, changes in fair value are accumulated in the FVOCI reserve within equity. The accumulated changes in fair value are transferred to profit or loss when the investment is derecognised or impaired.

#### (f) Other reserve

The other reserve represents the net assets of Nanjing High Accurate, which was contributed to the Group by the founder shareholders of Nanjing High Accurate when the founder shareholders obtained control of Nanjing High Accurate as well as the subsequent acquisition of additional equity interest in Nanjing High Accurate and contributed to the Group by the founder shareholders of Nanjing High Accurate.

#### (g) Exchange reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 2.7 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32 TRADE AND OTHER PAYABLES

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Trade payables		
– Amounts due to third parties	2,049,268	1,714,786
– Amounts due to associates (Note 43(c))	318	1,605
– Amounts due to joint ventures (Note 43(c))	1,115	455
	2,050,701	1,716,846
Bills payable	3,884,766	4,526,958
	5,935,467	6,243,804
Accruals	86,480	146,632
Other tax payables	65,259	24,978
Payables on purchase of property, plant and equipment	167,867	189,313
Payroll and welfare payables	151,238	135,410
Other payables		
– Amounts due to third parties	541,828	478,707
– Amounts due to associates (Note 43(c))	221	1,081
– Amounts due to joint venture (Note 43(c))	–	30,000
	1,012,893	1,006,121
Financial guarantee liability	28,115	15,842
	1,041,008	1,021,963
	6,976,475	7,265,767

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 32 TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
0 – 30 days	2,198,577	1,423,121
31 – 60 days	407,034	900,690
61 – 180 days	863,605	2,811,377
181 – 365 days	2,301,865	965,899
Over 365 days	164,386	142,717
	<b>5,935,467</b>	<b>6,243,804</b>

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 33 BORROWINGS AND CORPORATE BONDS

	As at 31 December			
	2019		2018	
	Effective interest rate %	RMB' 000	Effective interest rate %	RMB' 000
<b>Current</b>				
Bank loans – unsecured	4.35-5.92	1,927,500	1.05 – 5.66	3,190,367
Bank loans – secured	3.69-5.92	896,500	3.91 – 5.10	1,270,020
Medium-term notes – unsecured	–	–	8.50	500,000
		2,824,000		4,960,387
Corporate bonds – unsecured (a)	6.59-6.62	1,914,275	–	–
		4,738,275		4,960,387
<b>Non-current</b>				
Bank loans – secured	8.00	736	8.00	1,105
Corporate bonds – unsecured (a)	7.62	498,437	6.59 – 7.62	2,411,465
		499,173		2,412,570
		5,237,448		7,372,957

- (a) In March 2017, Nanjing Drive issued the first tranche of corporate bonds of RMB900,000 thousands (the “First Tranche Bond”) which carries an interest rate of 6.47% per annum. In July 2017, Nanjing Drive issued the second tranche of corporate bonds of RMB1,020,000 thousands which carries an interest rate of 6.50% per annum. In January 2018, Nanjing Drive issued the third tranche of corporate bonds of RMB500,000 thousands which carries an interest rate of 7.50% per annum. All corporate bonds have a period of 5 years, attached with the option of adjusting the nominal interest rate for issuer and the option of redemption at the end of the third year for investors. In March 2020, as all the bondholders of the First Tranche Bond have chosen to redeem, Nanjing Drive has paid RMB900,000 thousands for the redemption, the First Tranche Bond have been cancelled subsequently.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 33 BORROWINGS AND CORPORATE BONDS (Continued)

The maturity of borrowings is as follows:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Analysed into:		
Bank loans repayable:		
– On demand or within 1 year	2,824,000	4,460,387
– Between 1 and 2 years	736	–
– Between 2 and 5 years	–	1,105
	2,824,736	4,461,492
Other borrowings 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
	5,237,448	7,372,957

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

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

In addition, the Group has variable-rate borrowings of RMB90,000 thousands (2018: RMB1,476,160 thousands) which carry interest rates based on the rate of People's Bank of China prescribed interest rate (the "LPR") (2018: interest rates based on the LPR or the London Interbank Offered Rate (the "LIBOR")).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 33 BORROWINGS AND CORPORATE BONDS *(Continued)*

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

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

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

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in Note 41.

### 34 DEFERRED INCOME

	2019 RMB' 000	2018 RMB' 000
<b>At 1 January</b>	71,479	91,897
Government grants received during the year	143,042	–
Recognised in profit or loss (Note 6)	(17,124)	(20,418)
<b>At 31 December</b>	197,397	71,479
Represented		
– Current portion	17,124	17,196
– Non-current portion	180,273	54,283
	197,397	71,479

As at the end of the reporting period, the amount represented the grants received from the PRC government for the Group's acquisition of assets for technology development, and such amount will be released to income over the useful lives of the relevant assets.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 35 WARRANTY PROVISION

	2019 RMB' 000	2018 RMB' 000
<b>At 1 January</b>	<b>162,901</b>	120,664
Additional provisions recognised during the year	359,312	150,500
Amounts utilised during the year	(208,181)	(108,263)
<b>At 31 December</b>	<b>314,032</b>	162,901
Represented		
– Current portion	216,868	90,373
– Non-current portion	97,164	72,528
	<b>314,032</b>	162,901

At the end of the reporting period, the amount represents the directors' best estimate of the expected cost that will be required under the Group's obligations for warranties under sale of goods. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

### 36 DEFERRED INCOME TAX

Deferred income tax assets	Taxable losses carried forward RMB' 000	Impairment of receivables RMB' 000	Write-down of inventories RMB' 000	Provisions RMB' 000	Deferred income RMB' 000	Others RMB' 000	Total RMB' 000
At 1 January 2018	32,778	104,018	54,295	17,996	22,638	33,552	265,277
Recognised in profit or loss	11,450	14,035	(1,854)	4,331	(4,768)	(10,252)	12,942
Recognised in other comprehensive income	-	-	-	-	-	(3,829)	(3,829)
Transferred to disposal group classified as held-for-sale (Note 29)	-	(850)	(1,278)	-	-	(835)	(2,963)
<b>At 31 December 2018</b>	<b>44,228</b>	<b>117,203</b>	<b>51,163</b>	<b>22,327</b>	<b>17,870</b>	<b>18,636</b>	<b>271,427</b>
Recognised in profit or loss	(20,094)	(4,220)	(5,407)	24,205	26,662	4,469	25,615
Recognised in other comprehensive income	-	-	-	-	-	1,724	1,724
<b>At 31 December 2019</b>	<b>24,134</b>	<b>112,983</b>	<b>45,756</b>	<b>46,532</b>	<b>44,532</b>	<b>24,829</b>	<b>298,766</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 36 DEFERRED INCOME TAX (Continued)

Deferred income tax liabilities	Change in fair value of identified assets upon acquisition of subsidiaries RMB' 000	Development costs RMB' 000	Withholding taxes RMB' 000	Fair value change on financial assets of FVOCI and FVPL RMB' 000	Others RMB' 000	Total RMB' 000
At 1 January 2018	(13,522)	-	(60,669)	(101,931)	(26,346)	(202,468)
Recognised in profit or loss	823	474	11,582	(14,846)	(1,179)	(3,146)
Recognised in other comprehensive income	-	-	-	18,846	-	18,846
Transferred to disposal group classified as held-for-sale	-	-	-	24,570	-	24,570
At 31 December 2018	(12,699)	474	(49,087)	(73,361)	(27,525)	(162,198)
Recognised in profit or loss	1,627	(474)	(14,649)	22,773	6,807	16,084
Recognised in other comprehensive income	-	-	-	(38,091)	-	(38,091)
Acquisition of a subsidiary (Note 42)	(13,798)	-	-	-	-	(13,798)
At 31 December 2019	(24,870)	-	(63,736)	(88,679)	(20,718)	(198,003)

#### Deferred tax assets not recognised

As at 31 December 2019, the Group has unused tax losses of RMB1,208,226 thousands (2018: RMB907,030 thousands) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB96,536 thousands (2018: RMB176,912 thousands) of such loss. No deferred tax asset has been recognised in respect of the remaining RMB1,111,690 thousands (2018: RMB730,118 thousands) due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. During the year ended 31 December 2019, the other temporary differences not recognised are RMB450,061 thousands (2018: RMB41,788 thousands).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 37 CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Profit before income tax		
– From continuing operations	416,077	279,783
– From discontinued operations	63,695	(63,002)
Adjustment for:		
– Finance costs	517,021	652,315
– Finance income	(81,001)	(143,895)
– Interest income from other financial assets at amortised cost	(47,602)	(36,919)
– Dividend income	(30,449)	(83,176)
– Share of net profit of associates and joint ventures	(14,131)	(39,108)
– Losses on disposal of property, plant and equipment	33,203	1,442
– Gains on disposal of the discontinued operations	(139,943)	(83,728)
– Loss on disposal of associates and joint ventures	3,624	583
– Net fair value gains on financial assets at FVPL (Note 7)	(73,747)	(82,885)
– Depreciation of property, plant and equipment	472,635	490,549
– Depreciation of right-of-use assets	13,789	–
– Amortisation on land leases prepayments	–	16,492
– Amortisation of intangible assets	14,825	17,309
– Impairment losses of property, plant and equipment	8,159	–
– Reversal of impairment losses of intangible assets	–	(1,539)
– Impairment loss of investments in associates and joint ventures	13,457	26,324
– (Reversal of) provision recognised for decline in the value of inventories	(5,488)	1,604
– Impairment loss of trade receivable	23,852	34,937
– Impairment loss of other receivables	43,335	17,778
– Impairment loss/(reversal of impairment loss) of prepayments	12,982	(7,637)
– Unrealised exchange gains, net	5,084	(21,211)
– Deferred income of financial guarantee	(4,188)	(4,713)
– Release of deferred income	(17,124)	(20,418)
<b>Operating profit before changes in working capital</b>	<b>1,228,065</b>	<b>950,885</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 37 CASH GENERATED FROM OPERATIONS *(Continued)*

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
Changes in working capital:		
– Increase in inventories	(243,353)	(252,451)
– Decrease/(increase) in trade and bills receivable	1,135,957	(175,304)
– Decrease in other receivables	83,126	233,213
– Decrease in prepayments	129,344	67,116
– Decrease in trade and bills payables	(366,996)	(132,575)
– Increase/(decrease) in contract liabilities	209,874	(135,183)
– (Decrease)/increase in other payables and accruals	(192,359)	140,858
– Increase in warranty provision	150,581	42,237
<b>Cash generated from operations</b>	<b>2,134,239</b>	<b>738,796</b>

#### (a) Reconciliation of liabilities arising from financing activities:

	As at 1 January 2019 RMB' 000	Financing cash flows RMB' 000	Foreign exchange RMB' 000	Disposed of RMB' 000	As at 31 December 2019 RMB' 000
Borrowings	7,372,957	(2,137,519)	2,010	–	5,237,448
Borrowings included in the liabilities classified as held-for-sale	181,125	(44,000)	–	(137,125)	–
	7,554,082	(2,181,519)	2,010	(137,125)	5,237,448

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 37 CASH GENERATED FROM OPERATIONS *(Continued)*

#### (b) Net debt reconciliation

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Cash and cash equivalents	2,520,415	2,062,624
Borrowings – repayable within one year	(4,738,275)	(4,960,387)
Borrowings – repayable after one year	(499,173)	(2,412,570)
<b>Net debt</b>	<b>(2,717,033)</b>	<b>(5,310,333)</b>
Cash and cash equivalents	2,520,415	2,062,624
Gross debt – fixed interest rates	(5,147,448)	(5,896,797)
Gross debt – variable interest rates	(90,000)	(1,476,160)
<b>Net debt</b>	<b>(2,717,033)</b>	<b>(5,310,333)</b>

	Other assets	Liabilities from financing activities		Total RMB' 000
	Cash RMB' 000	borrowings due within 1 year RMB' 000	Borrowings due after 1 year RMB' 000	
At 1 January 2018	4,030,409	(5,030,608)	(2,756,293)	(3,756,492)
Cash flows	(1,963,739)	766,584	(520,952)	(1,718,107)
Reclassification	–	(843,000)	843,000	–
Transferred to disposal group classified as held-for-sale (Note 29)	(25,257)	143,000	38,125	155,868
Foreign exchange adjustments	21,211	3,637	(16,450)	8,398
<b>At 31 December 2018</b>	<b>2,062,624</b>	<b>(4,960,387)</b>	<b>(2,412,570)</b>	<b>(5,310,333)</b>
Cash flows	462,875	2,137,150	369	2,600,394
Reclassification	–	(1,913,028)	1,913,028	–
Foreign exchange adjustments	(5,084)	(2,010)	–	(7,094)
<b>At 31 December 2019</b>	<b>2,520,415</b>	<b>(4,738,275)</b>	<b>(499,173)</b>	<b>(2,717,033)</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 38 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.

### 39 CONTINGENT LIABILITIES

At 31 December 2019, the Group provided guarantees to one of the Group's associates and two of the independent third parties in favour of its bank loans of RMB780,008 thousands (2018: RMB741,360 thousands). This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At the end of the reporting period, an amount of RMB28,115 thousands (2018: RMB15,842 thousands) has been recognised in the consolidated statement of financial position as liabilities.

### 40 COMMITMENTS

#### (a) Capital commitments

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

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
Contracted, but not provided for:		
Plant and machinery	237,046	290,208

#### (b) Operating lease commitments – the Group as lessee

The Group entered into certain non-cancellable operating lease agreements of leasehold land and office equipment. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
No later than 1 year	3,085	1,914
Later than 1 years	3,815	1,296
	6,900	3,210

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 41 ASSETS PLEDGED AS SECURITIES

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

	As at 31 December	
	2019	2018
	RMB' 000	RMB' 000
Bills receivable	1,179,231	905,550
Property, plant and equipment	757,984	245,784
Land use rights	176,107	50,205
Pledged bank deposits	2,642,560	2,922,234
	4,755,882	4,123,773

### 42 BUSINESS COMBINATION

#### (i) Summary of acquisition in 2019

In February 2019, the 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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 42 BUSINESS COMBINATION *(Continued)*

#### (i) Summary of acquisition in 2019 *(Continued)*

##### Purchase consideration – cash inflow

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 42 BUSINESS COMBINATION *(Continued)*

#### (ii) Summary of acquisition in 2018

On 30 November 2018, the Group acquired 100% equity interest in Jiangsu Green Lighting Engineering Co., Ltd. from an independent third party with a total purchase consideration of RMB19,600 thousands.

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

	Fair value RMB' 000
Cash and cash equivalents	4,436
Trade receivables	6,863
Other receivables	6,507
Prepayment	1,644
Inventories	12,346
Property, plant and equipment	859
Trade payables	(3,318)
Contract liabilities	(8,021)
Other payables	(1,988)
Net identifiable assets acquired	19,328
Add: Goodwill	272
Consideration	19,600

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 42 BUSINESS COMBINATION *(Continued)*

#### (ii) Summary of acquisition in 2018 *(Continued)*

Purchase consideration – cash outflow

	Year ended 31 December 2018 RMB' 000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	(19,600)
Less: Cash and cash equivalents acquired	4,436
Net outflow of cash – investing activities	(15,164)

### 43 RELATED PARTY TRANSACTIONS

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

	Year ended 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Associates:</b>		
Sales of products (i)	1,655	–
Purchases of products (ii)	25,279	28,188
<b>Joint ventures:</b>		
Sales of products (i)	16,407	52,585
Purchases of products (ii)	831	–

- (i) The sales to the joint ventures and the associates were made according to the published prices and conditions offered to the major customers of the Group, except that a longer credit period of up to six months is normally granted.
- (ii) The purchases from the associates and joint ventures were made according to the published prices and were agreed by both parties.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 43 RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties:

At 31 December 2019, the Group provided financial guarantees to Nanjing Gaochuan Mechanical and Electrical Automatic Control Equipment Co., Ltd., an associate of the Group, and its subsidiaries (collectively as “Nanjing Gaochuan”) in favour of Nanjing Gaochuan’s bank loans of RMB306,008 thousands (2018: RMB331,360 thousands).

(c) Outstanding balances with related parties:

The Group’s trade and other balances with its associates, joint ventures and other related party as at the end of the reporting period are disclosed in Notes 21, 25, 26 and 32 to the consolidated financial statements.

(d) Compensation of key management personnel of the Group:

Other than the emolument paid to the directors of the Company, who are also considered as the key management of the Group as set out in Note 47, the Group did not have any other significant compensation to key management personnel.

### 44 OUTSTANDING LITIGATION

On 12 November 2015, Nanjing High Speed and NGC Transmission Europe GmbH (hereafter “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”) 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 financial information, 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 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, based on the assessment of the independent lawyers, a provision amounting to RMB8,066 thousands was accrued by management.

### 45 SUBSEQUENT EVENTS

Since early 2020, the novel coronavirus epidemic (“the COVID-19 outbreak”) has spread across China and other countries. Up to the date on which these consolidated financial statements are issued, the Group is still in the process of assessing the impacts of the COVID-19 outbreak on the financial position and operating results of the Group. The Group will stay alert on the development and situation of the COVID-19 outbreak, continuing to assess its financial impacts and take necessary action to mitigate the business risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2019 RMB' 000	2018 RMB' 000
<b>Assets</b>		
<b>Non-current assets</b>		
Property, plant and equipment	3	3
Interests in subsidiaries	4,323,902	4,409,547
Financial assets at FVOCI	28,502	12,298
	<b>4,352,407</b>	<b>4,421,848</b>
<b>Current assets</b>		
Other receivables	302	263
Cash and cash equivalents	8,046	31,632
	<b>8,348</b>	<b>31,895</b>
<b>Total assets</b>	<b>4,360,755</b>	<b>4,453,743</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Amounts due to subsidiaries	6,088	5,989
Other payables	312	306
	<b>6,400</b>	<b>6,295</b>
<b>Total liabilities</b>	<b>6,400</b>	<b>6,295</b>
<b>Equity attributable to owners of the Company</b>		
Share capital	119,218	119,218
Reserves (Note (a))	4,235,137	4,328,230
<b>Total equity</b>	<b>4,354,355</b>	<b>4,447,448</b>
<b>Total equity and liabilities</b>	<b>4,360,755</b>	<b>4,453,743</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(Continued)

#### (a) Reserve movement of the Company

	Share premium RMB' 000	Deemed capital contribution reserve RMB' 000	FVOCI reserve RMB' 000	Retained profit RMB' 000	Total RMB' 000
<b>At 1 January 2018</b>	4,358,785	77,651	(2,086)	24,624	4,458,974
Profit for the year	-	-	-	118,172	118,172
Other comprehensive loss for the year:					
Change in fair value of financial assets at FVOCI – net of tax	-	-	(9,813)	-	(9,813)
Final 2017 dividend declared	(239,103)	-	-	-	(239,103)
<b>A 31 December 2018</b>	<b>4,119,682</b>	<b>77,651</b>	<b>(11,899)</b>	<b>142,796</b>	<b>4,328,230</b>
Profit for the year	-	-	-	32,695	32,695
Other comprehensive loss for the year:					
- Change in fair value of financial assets at FVOCI – net of tax	-	-	(10,794)	-	(10,794)
Final 2018 dividend declared	(114,994)	-	-	-	(114,994)
<b>At 31 December 2019</b>	<b>4,004,688</b>	<b>77,651</b>	<b>(22,693)</b>	<b>175,491</b>	<b>4,235,137</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 47 BENEFITS AND INTERESTS OF DIRECTORS

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

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

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

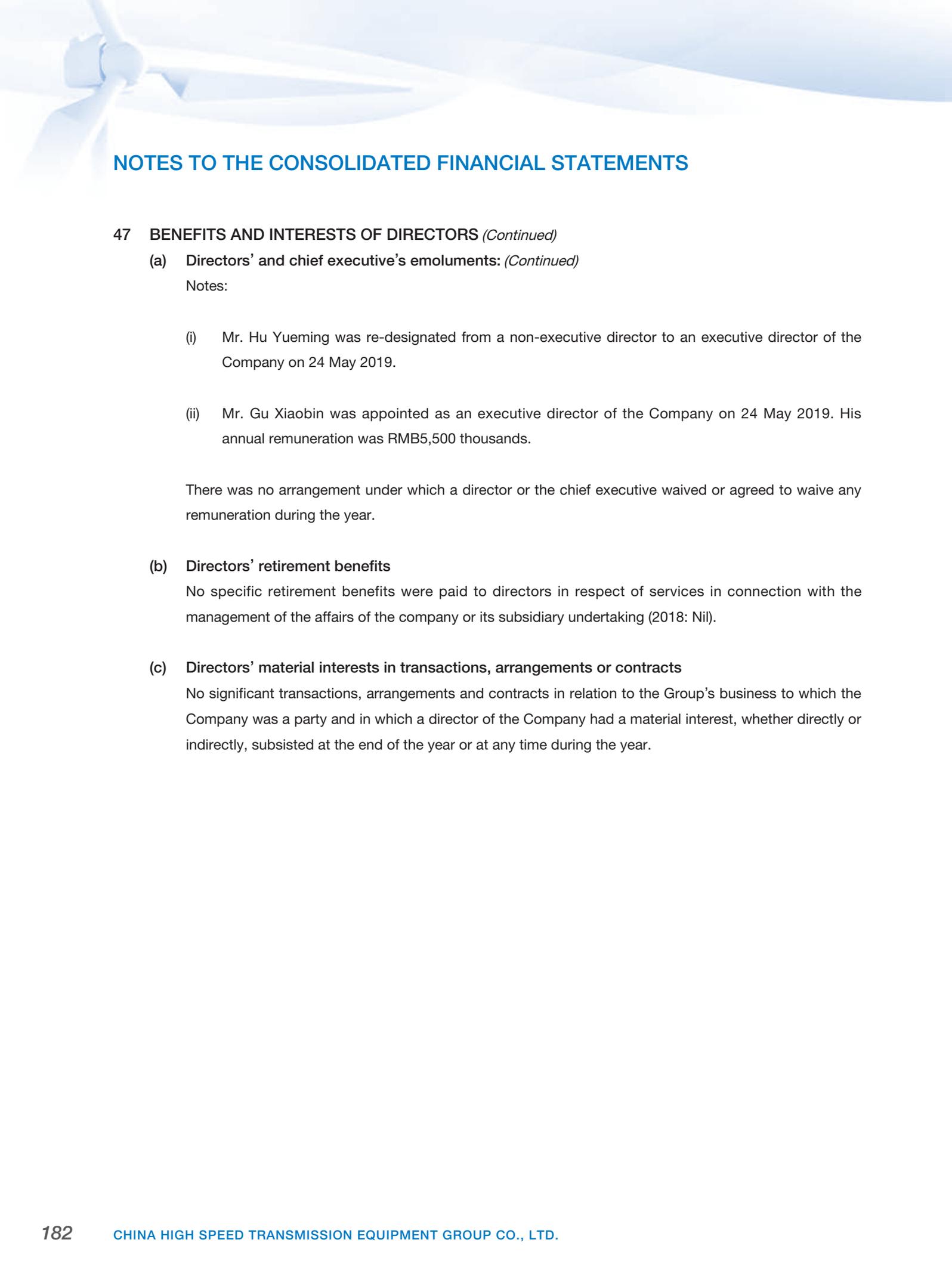
## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 47 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

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

	Fees RMB' 000	Salaries and other benefits RMB' 000	Pension scheme contributions RMB' 000	Total RMB' 000
<b>For the year ended</b>				
<b>31 December 2018</b>				
<b>Executive Directors</b>				
Mr. Chen Yongdao	–	3,097	53	3,150
Mr. Wang Zhengbing	–	2,697	53	2,750
Mr. Zhou Zhijin	–	2,697	53	2,750
Mr. Hu Jichun	–	2,397	53	2,450
Ms. Zheng Qing	203	–	–	203
<b>Non-executive directors</b>				
Mr. Hu Yueming	–	947	53	1,000
Mr. Yuen Chi Ping	203	–	–	203
<b>Independent non-executive directors</b>				
Mr. Jiang Xihe	203	–	–	203
Ms. Jiang Jianhua	203	–	–	203
Mr. Nathan Yu Li	203	–	–	203
Dr. Chan Yau Ching	203	–	–	203
	1,218	11,835	265	13,318



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 47 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

Notes:

- (i) Mr. Hu Yueming was re-designated from a non-executive director to an executive director of the Company on 24 May 2019.
- (ii) Mr. Gu Xiaobin was appointed as an executive director of the Company on 24 May 2019. His annual remuneration was RMB5,500 thousands.

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

#### (b) Directors' retirement benefits

No specific retirement benefits were paid to directors in respect of services in connection with the management of the affairs of the company or its subsidiary undertaking (2018: Nil).

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.