



中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

INTERIM REPORT

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Mr. Hu Yueming

Mr. Chen Yongdao

Mr. Wang Zhengbing

Mr. Zhou Zhijin

Ms. Zheng Qing

Mr. Gu Xiaobin

Mr. Fang Jian

Independent non-executive Directors

Mr. Jiang Xihe

Ms. Jiang Jianhua

Dr. Chan Yau Ching, Bob

Mr. Nathan Yu Li

AUDIT COMMITTEE

Mr. Jiang Xihe (*Chairman*)

Dr. Chan Yau Ching, Bob

Mr. Nathan Yu Li

REMUNERATION COMMITTEE

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

Mr. Jiang Xihe

Mr. Chen Yongdao

NOMINATION COMMITTEE

Mr. Hu Jichun (*Chairman*)

Mr. Jiang Xihe

Mr. Nathan Yu Li

REGISTERED OFFICE

4th Floor, Harbour Place

103 South Church Street

George Town

Grand Cayman KY1-1002

Cayman Islands

AUDITOR

Baker Tilly Hong Kong Limited

LEGAL ADVISER

Chungs Lawyers in association with DeHeng Law
Offices

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1302, 13th Floor, COFCO Tower

No. 262 Gloucester Road

Causeway Bay

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

3rd Floor, Royal Bank House

24 Shedden Road

P.O. Box 1586

Grand Cayman KY1-1110

Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Hu Yueming
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

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

PLACE OF LISTING

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

STOCK CODE

00658

WEBSITE

www.chste.com

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2021 RMB' 000 (Unaudited)	Six months ended 30 June 2020 RMB' 000 (Unaudited)	Change
Revenue from contracts with customers	10,601,507	5,468,796	93.9%
Gross profit	1,805,980	1,173,169	53.9%
Profit for the period attributable to owners of the Company	722,802	302,429	139.0%
Basic and diluted earnings per share (RMB)	0.442	0.185	138.9%

	As at 30 June 2021 RMB' 000 (Unaudited)	As at 31 December 2020 RMB' 000 (Audited)	Change
Total assets	28,623,283	25,851,099	10.7%
Total liabilities	15,466,691	13,227,891	16.9%
Net assets	13,156,592	12,623,208	4.2%
Net assets per share (RMB)	8.0	7.7	3.9%
Gearing ratio*(%)	54.0	51.2	2.8 percentage points

* $Gearing\ ratio = \frac{total\ liabilities}{total\ assets}$

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China High Speed Transmission Equipment Group Co., Ltd. (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) are principally engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications and trade of goods. During the six months ended 30 June 2021 (the “**Period under Review**”), the Group recorded sales revenue of approximately RMB10,601,507,000 (30 June 2020: RMB5,468,796,000), representing an increase of 93.9% as compared with the corresponding period of 2020, and the gross profit margin was approximately 17.0% (30 June 2020: 21.5%). Profit attributable to owners of the Company was approximately RMB722,802,000 during the Period under Review (30 June 2020: RMB302,429,000), representing an increase of 139.0% as compared with the corresponding period of 2020, and basic earnings per share was RMB0.442 during the Period under Review (30 June 2020: RMB0.185), representing an increase of 138.9% as compared with the corresponding period of 2020.

Principal Business Review

1. Wind gear transmission equipment

Diversified, large and overseas market development

The Group is a leading supplier of wind gear transmission equipment in China (the “**PRC**” or “**China**”). By leveraging on its strong research, design and development capabilities, the Group has a range of products including 1.5MW, 2MW, 3MW, 4MW, 5MW, 6MW, 7MW and 8MW wind power transmission equipment whose technology have reached an internationally advanced technical level and which have been provided to domestic and overseas customers in bulk and are well recognised by customers in general. With the product platform NGC StanGear™ and our core technology platform, we continue to upgrade our product design and computation analysis technology, process manufacturing technology, heat treatment and control technology and the processing technology of precise tooth profiles for the reserve of solid technology foundation for the manufacturing of equipment in MW. In light of market development trend, the Group is actively developing gear boxes in MW and introducing technologies of status monitoring, big data analysis and mobile terminal technology and strives to establish an integrated product and service system of intelligent gear boxes.

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

The wind gear transmission equipment is a major product that has been developed by the Group. During the Period under Review, sales revenue of wind gear transmission equipment business increased by approximately 32.1% to approximately RMB6,192,952,000 (30 June 2020: RMB4,687,524,000) as compared with the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Industrial gear transmission equipment

Enhanced market competitiveness through changes in production modes and sales strategies

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

In recent years, the Group continues to adhere to the strategy for green development of the industrial gear transmission equipment business. With technology as its competitive advantage, the Group has upgraded the technology of the heavy products with a focus on energy-saving and environmentally-friendly products and explored in-depth the heavy-duty transmission field. Meanwhile, the Group has developed modular, serialized and intelligent products which are internationally competitive. Through the characteristics of "complete range, clear layers and precise subdivision" as our products positioning and market positioning, the Group would be able to facilitate its change in sales strategies and to explore new markets and industries. In particular, the Group aims to focus on the research and development of the standard gear box and planetary gear box segment and to explore new markets of the same segment. At the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as comprehensive system solutions to its customers, helping them to enhance their current production efficiency without increasing capital expenditure and satisfying the diverse and differentiated needs of customers, thereby maintaining the Group's position as a major supplier in the industrial gear transmission equipment market.

During the Period under Review, the industrial gear transmission equipment business generated sales revenue of approximately RMB1,024,560,000 (30 June 2020: RMB631,901,000) for the Group, representing an increase of 62.1% over the corresponding period of last year.

3. Rail transportation gear transmission equipment

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

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

During the Period under Review, the rail transportation gear transmission equipment business generated sales revenue of approximately RMB202,746,000 (30 June 2020: RMB131,383,000) for the Group, representing an increase of 54.3% over the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

4. Trading business

Explore and expand trading business through resource integration

The trading business of the Group mainly focuses on bulk commodity and steel industry chain. The bulk commodity trading business mainly involves the procurement and wholesale of refined oil and electrolytic copper. During the Period under Review, the bulk commodity trading business accounted for approximately 70% in the trading business. The trading business in steel industry chain mainly involves the procurement and wholesale of coal and coke (the raw material of steel), and the procurement and wholesale of steel. During the Period under Review, the trading business in steel industry chain accounted for approximately 30% in the trading business. The Group's trading business in steel industry chain takes core resources of its trade system as a key point in expanding its system. At present, the Group has completed the preliminary resource integration of the steel industry from the upstream raw material to special steel, which promotes the development of the trading business.

During the Period under Review, the sales revenue of the trading business amounted to approximately RMB3,149,579,000 (30 June 2020: nil).

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of the mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB1,695,712,000 (30 June 2020: RMB1,369,248,000), representing an increase of 23.8% over the corresponding period of last year. Overseas sales accounted for 16.0% (30 June 2020: 25.0%) of the total sales, representing a decrease of 9 percentage points over the corresponding period of 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 mechanical transmission equipment business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging on its innovative technology and premium quality, the Group has obtained for over 100 times major technical and quality awards, certificates and honorary titles at national, provincial and municipal level, such as national, provincial and municipal technology advancement awards, outstanding new products awards, Nanjing Mayor Quality Award, certification for new products, certification for high and new tech products and certification of high and new tech enterprise as well as the honorary title of "Jiangsu Boutique". As of 30 June 2021, a total of 602 patents were granted by the State. In addition, 389 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards in the PRC. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. As of 30 June 2021, the Group passed ISO9001:2015 quality management system certification, ISO14001:2015 environmental management system certification, ISO45001:2018 occupational health and safety management system certification and Jiangsu Province Quality and Credit Graded AAA certification. Wind gear transmission equipment products have

MANAGEMENT DISCUSSION AND ANALYSIS

obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), China Quality Certification Centre (CQC), Technische Überwachungs-Verein (TÜV), DNV GL, UL, European Union's CE and ETL; industrial gear transmission equipment products have been certified with the European Union's CE certificate, Mining Products Safety Approval and Certification Center Co., Ltd. (MA) and API Q1 Quality Management System of American Petroleum Institute; and rail transportation gear transmission equipment products have obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry.

PROSPECTS

In the first half of 2021, the world economy was significantly affected by the COVID-19 pandemic. With Delta variant raging around in Europe and America, there are also considerable uncertainties about the global economic development. However, the global economy is recovering gradually as the lockdown measures taken by several countries and regions have been eased and the COVID-19 vaccination work has been carried out globally. The International Monetary Fund (IMF) expects that the global economy will increase by 6% in 2021. With comprehensive implementation of prevention and protection measures against COVID-19 such as “combating inbound cases and domestic resurgences” and implementation of free COVID-19 vaccination for the entire population, the pandemic prevention and control has become normalized, social activities has been resumed to a certain degree and the economic development has been growing steadily. Recently, however, cluster infection fell to several places in China, which was mainly due to the imported cases. At present, the situation in foreign countries is not optimistic. The world is facing new challenges due to the spread of new mutant, and the outlook of the economy is full of uncertainties. Facing the complex global situation, China plans to set up a new development pattern of dual circulation internationally and domestically and contribute to high-quality economic development under the “dual carbon” goals of reaching carbon peak by 2030 and carbon neutrality by 2060.

Looking back at the first half of the year, the wind power industry maintained an overall growth trend against the backdrop of economy recovery. The year 2021 marks the beginning of the “14th Five-Year” Strategic Plan of China, building of a modern energy system and implementation of energy resource security strategies will become the keynote in the upcoming stage. According to the latest data released by the National Energy Administration of the PRC, from January to June of 2021, the new grid-connected installed wind power capacity nationwide was approximately 10.84 million kilowatts, of which, onshore wind increased by 8.694 million kilowatts and offshore wind power increased by 2.146 million kilowatts. The installed wind power generation capacity nationwide was approximately 290 million kilowatts, representing a year-on-year increase of 34.7%. Against the backdrop of energy transformation, wind power is indispensable in China's energy structure and will grow in the long term. According to the 2021-2022 Renewable Energy Prospect Report, the International Energy Agency (IEA) expects that the growth rate of the global installed wind power capacity market will slow down in 2021 and 2022, but will remain 50% higher than the average of 2017 to 2019. In particular, the global offshore installed wind power capacity in 2021 is expected to increase by 60%, and China is expected to account for nearly 60% of the expansion of offshore wind power.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading supplier of wind power transmission equipment, with diversified, large and overseas market development. Leveraging on its strong research, design and development capabilities, the Group has a range of products including 1.5MW, 2MW, 3MW, 4MW, 5MW, 6MW, 7MW and 8MW 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. Currently, the Group continues to maintain a strong customer portfolio. The customers of wind power business include the major wind turbine manufacturers in the PRC, as well as the renowned international wind turbine manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Vestas and Suzlon, etc. With our quality products and good services, the Group has gained extensive recognition and trust from customers at home and abroad. The Group has subsidiaries in the United States, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group. The Group strives to have closer communication and discussion with potential customers and to grasp the opportunities in emerging markets so as to enhance production capacity and to further diversify services for global customers.

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

The Group's rail transportation gear transmission equipment is widely used in the rail transportation fields such as high-speed rails, metro lines, urban train and tram. The Company has established long-term cooperative relationships with many well-known domestic and foreign companies in the industry. The Group has obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry for its rail transportation gear box products, which has laid a solid foundation for further expansion in the international rail transportation market. Currently the products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong 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, Canada and France. With optimized gear box design technology, excellent sealing technology and effective control of the production process, the Group's rail transportation gear transmission equipment are more environmentally friendly, and the products are well received by users.

MANAGEMENT DISCUSSION AND ANALYSIS

Looking forward to the second half of the year, under the guidance of “dual carbon” goals, the Chinese government is making full efforts to support the development of clean energy from various aspects such as finance, technology, policy and industry norms. Domestic wind power and other clean energy industries benefited from a variety of favorable policies. In April this year, the National Energy Administration issued the Guiding Opinions on Energy Work in 2021 《2021年能源工作指導意見》, which put forward the expected target in respect of quality efficiency for 2021, i.e., the goal that the allocation of energy resources will be more reasonable, the utilization efficiency will be greatly improved, and the utilization rate of renewable energy such as wind power and photovoltaic power generation will maintain at a high level, and the average utilization hours of cross-regional transmission channels will increase to about 4,100 hours. At the executive meeting of the State Council presided by Premier Li Keqiang on 7 July 2021, the financial support for the real economy was determined to increase, and measures supporting carbon emission reduction were introduced to promote green and low-carbon development, and establish monetary policy tools to support carbon emission reduction. On 16 July 2021, as a policy tool, the national carbon emissions trading market was officially launched. The National Development and Reform Commission and the National Energy Administration issued the Guiding Opinions on Accelerating the Development of New Energy Storage 《關於加快推動新型儲能發展的指導意見》 in July this year, setting the future development targets for new energy storage. It is planned to realize the transformation of new energy storage from the stage of initial commercialization to scale development by 2025, and realize a comprehensive market-driven development of new energy storage by 2030. In August 2021, the National Development and Reform Commission and the National Energy Administration issued another notice, encouraging power generation enterprises to increase the scale of renewable energy power generation installation and grid connection through self-built or purchase of peak shaving energy storage capacity, so as to promote the vigorous development and full consumption of renewable energy such as wind power and solar power. Driven by various policies, as one of the renewable energy sources, the wind power is expected to achieve larger-scale development with higher proportion in the future. The further increase of utilization of wind power and stable investment and growth of the industry will propel the optimization of the wind power layout and effectively help the development of the Group’s wind power gear transmission equipment business.

In the second half of 2021, the Group will adhere to the four core competitive strengths of “innovative thinking, zero defects, professional services, and customer orientation”, and make full efforts to develop businesses such as wind power gear transmission equipment, industrial gear transmission equipment, rail transportation transmission equipment and robotic reducer. By leveraging on its advantages in technology, management, market and brand, the Group will further improve product quality while maintaining its leading market position, so as to continue to provide products with better quality and more comprehensive services to customers. In addition, the Group will keep up with market policy trends, and strive to outperform the average market development by adopting the visionary market strategy, continuing to invest in innovation, advanced manufacturing technologies, promoting the management concept of zero defects, injecting high-level investments in human resources and building an excellent corporate culture, etc. so as to achieve a development speed higher than the market average, and to be a stable and sustainable industry leader.

INTERIM DIVIDEND

The board (the “Board”) of directors (the “Directors”) of the Company did not recommend the payment of an interim dividend for the six months ended 30 June 2021.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Sales revenue of the Group for the Period under Review increased by 93.9% to approximately RMB10,601,507,000.

	Revenue		
	Six months ended 30 June		
	2021	2020	Change
	RMB' 000	RMB' 000	
Wind Gear Transmission Equipment	6,192,952	4,687,524	32.1%
Industrial Gear Transmission Equipment	1,024,560	631,901	62.1%
Rail Transportation Gear Transmission Equipment	202,746	131,383	54.3%
Trading Business	3,149,579	–	N/A
Other Products	31,670	17,988	76.1%
Total	10,601,507	5,468,796	93.9%

Revenue

During the Period under Review, the Group's sales revenue was approximately RMB10,601,507,000, representing an increase of 93.9% as compared with the corresponding period of last year. This was mainly due to the increase in the market demand for wind gear transmission equipment products and commodity under trading business.

During the Period under Review, sales revenue from wind gear transmission equipment was approximately RMB6,192,952,000 (30 June 2020: RMB4,687,524,000), representing an increase of 32.1% as compared with the corresponding period of last year; sales revenue from industrial gear transmission equipment was approximately RMB1,024,560,000 (30 June 2020: RMB631,901,000), representing an increase of 62.1% as compared with the corresponding period of last year; sales revenue from rail transportation gear transmission equipment was approximately RMB202,746,000 (30 June 2020: RMB131,383,000), representing an increase of 54.3% as compared with the corresponding period of last year; and sales revenue from trading business was approximately RMB3,149,579,000 (30 June 2020: nil).

Gross profit margin and gross profit

During the Period under Review, the Group's consolidated gross profit margin was approximately 17.0% (30 June 2020: 21.5%), representing a decrease of 4.5 percentage points as compared with the corresponding period of last year. Consolidated gross profit for the Period under Review amounted to approximately RMB1,805,980,000 (30 June 2020: RMB1,173,169,000), representing an increase of 53.9% as compared with the corresponding period of last year. The decrease of 4.5 percentage points in consolidated gross profit margin in the first half of 2021 was mainly due to the increase in the proportion of trading business with low gross profit margin. The increase in consolidated gross profit was mainly due to the increase in sales revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income

During the Period under Review, the Group's other income was approximately RMB135,641,000 (30 June 2020: RMB106,909,000), representing an increase of 26.9% as compared with the corresponding period of last year. Other income mainly comprised of dividend income, interest income, government grants and income from sales of scraps and materials. The main reason for the increase was the increase in government grants and dividend income.

Other (losses)/gains – net

During the Period under Review, the Group's other net loss was approximately RMB38,339,000 (30 June 2020: net gain of RMB37,186,000). Other net loss mainly included foreign exchange losses and impairment losses on property, plant and equipment.

Selling and distribution expenses

During the Period under Review, the Group's selling and distribution expenses were approximately RMB205,170,000 (30 June 2020: RMB153,158,000), representing an increase of 34.0% as compared with the corresponding period of last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and business expenses. Selling and distribution expenses represented 1.9% (30 June 2020: 2.8%) of sales revenue for the Period under Review, representing a decrease of 0.9 percentage points as compared with the corresponding period of last year, which was mainly due to the increase in sales revenue.

Administrative expenses

During the Period under Review, the Group's administrative expenses were approximately RMB243,894,000 (30 June 2020: RMB270,990,000), representing a decrease of 10.0% as compared with the corresponding period of last year. The decrease in the administrative expenses was mainly due to the business restructuring of one of the Company's subsidiaries last year. Its staff costs and depreciation were included in administrative expenses during the corresponding period of last year, while these expense items were included in production cost during the Period under Review as it has resumed normal operation.

Research and development costs

During the Period under Review, the Group's research and development costs amounted to approximately RMB451,007,000 (30 June 2020: RMB230,093,000), representing an increase of 96.0% as compared with the corresponding period of last year, which was mainly due to the increased efforts in research and development of new products.

Net impairment losses recognised on financial assets

During the Period under Review, the net impairment losses on financial assets of the Group amounted to approximately RMB28,974,000 (30 June 2020: RMB142,534,000), which are comprised of impairment losses on trade receivables amounting to RMB26,101,000 and impairment losses on other receivables amounting to RMB2,873,000, the decrease in impairment losses were mainly due to individual provision for bad debts of trade receivables and other receivables of specific customers in the corresponding period of last year based on evaluation of credit risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

During the Period under Review, the Group's finance costs were approximately RMB135,550,000 (30 June 2020: RMB195,217,000), representing a decrease of 30.6% as compared with the corresponding period of last year, which was mainly due to the decrease in corporate bonds during the Period under Review as compared with the corresponding period of last year.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2021, the equity attributable to owners of the Company amounted to approximately RMB12,831,428,000 (31 December 2020: RMB12,215,334,000). The Group had total assets of approximately RMB28,623,283,000 (31 December 2020: RMB25,851,099,000), representing an increase of 10.7% as compared with the beginning of the year. Total current assets were approximately RMB19,916,584,000 (31 December 2020: RMB17,338,208,000), representing an increase of 14.9% as compared with the beginning of the year. Total non-current assets were approximately RMB8,706,699,000 (31 December 2020: RMB8,512,891,000), representing an increase of 2.3% as compared with the beginning of the year.

As at 30 June 2021, total liabilities of the Group were approximately RMB15,466,691,000 (31 December 2020: RMB13,227,891,000), representing an increase of approximately RMB2,238,800,000, or 16.9%, as compared with the beginning of the year. Total current liabilities were approximately RMB14,734,995,000 (31 December 2020: RMB12,545,009,000), representing an increase of 17.5% as compared with the beginning of the year. Total non-current liabilities were approximately RMB731,696,000 (31 December 2020: RMB682,882,000), representing an increase of 7.1% as compared with the beginning of the year.

As at 30 June 2021, the net current assets of the Group were approximately RMB5,181,589,000 (31 December 2020: RMB4,793,199,000), representing an increase of approximately RMB388,390,000, or 8.1%, as compared with the beginning of the year.

As at 30 June 2021, total cash and bank balances of the Group were approximately RMB6,026,516,000 (31 December 2020: RMB4,157,603,000), representing an increase of approximately RMB1,868,913,000, or 45.0%, as compared with the beginning of the year. Total cash and bank balances included pledged bank deposits of RMB2,827,702,000 (31 December 2020: RMB1,653,224,000) and the structured bank deposits included in the financial assets at fair value through profit or loss amounting to RMB227,500,000 (31 December 2020: RMB320,045,000).

As at 30 June 2021, the Group had total borrowings of approximately RMB3,054,575,000 (31 December 2020: RMB2,378,970,000), representing an increase of approximately RMB675,605,000, or 28.4%, as compared with the beginning of the year, which were due within one year. The fixed or floating interest rates of the Group's borrowings as at 30 June 2021 ranged from 3.00% to 5.22% per annum.

Taking into account the capital generated within and the banking credit available to the Group, and the net current assets of approximately RMB5,181,589,000 as at 30 June 2021, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 51.2% as at 31 December 2020 to 54.0% as at 30 June 2021.

Capital structure

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

The Group's cash and cash equivalents were mainly denominated in Renminbi and U.S. dollars. The Group's bank borrowings denominated in U.S. dollars as at 30 June 2021 amounted to approximately USD2,500,000.

As at 30 June 2021, the Group's borrowings with fixed interest rates accounted for approximately 100% of total borrowings.

PLEDGE OF ASSETS

Save as disclosed in note 24 to the condensed consolidated financial statements, the Group has made no further pledge of assets as at 30 June 2021.

CONTINGENT LIABILITIES

Save as disclosed in note 22 to the condensed consolidated financial statements, as at 30 June 2021, the Directors were not aware of any other material contingent liabilities.

CAPITAL COMMITMENTS

As at 30 June 2021, the Group had capital commitments contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of plant and machinery of approximately RMB1,078,582,000 (31 December 2020: RMB438,377,000). Details of which are set out in note 23 to the condensed consolidated financial statements. Such an increase in capital commitments was mainly due to the increased investment in wind gear transmission equipment by the Group in Huai'an, Jiangsu Province in 2021 and the increase in purchases of property, plant and equipment.

FOREIGN EXCHANGE RISK

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

The net loss of foreign exchange (included in "Other losses – net") recorded by the Group during the Period under Review was approximately RMB31,325,000 (30 June 2020: net gain of RMB25,210,000), mainly including loss from our export business denominated in U.S. dollars due to the fluctuation of Renminbi against U.S. dollars during the Period under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group have formulated foreign exchange risk management measures and strategies and will actively manage the net amount of foreign currency assets and liabilities to reduce its exposures to exchange rate risks in 2021.

INTEREST RATE RISK

During the Period under Review, the loans of the Group are mainly bank loans. 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.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2021, the Group employed approximately 5,964 employees (30 June 2020: 5,826). Staff costs of the Group for the Period under Review amounted to approximately RMB760,035,000 (30 June 2020: RMB647,770,000). The costs 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 the 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 Group's policy 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 creative 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 the state-managed pension scheme operated by the local government in China. The Group is required to contribute a specific percentage of its employees' 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, in funds under the control of trustees.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD DURING THE PERIOD UNDER REVIEW

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 30 June 2021:

Name of the investee company	Percentage	Cost of investment (RMB' 000)	Fair value as at 30 June 2021 (RMB' 000)	Percentage	Accumulated	Dividends
	of capital contribution paid up by the Group			of total assets of the Group	change in unrealized losses in fair value (RMB' 000)	received during the Period under Review (RMB' 000)
Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership)* (浙江浙商產融投資合夥企業 (有限合夥)) (note)	6.47%	2,000,000	1,985,308	6.94%	14,692	23,604

Note: Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership)*(浙江浙商產融投資合夥企業(有限合夥))(formerly known as “Zhejiang Zheshang Chanrong Share Investment Fund LLP*” 浙江浙商產融股權投資基金合夥企業(有限合夥)), a limited partnership established and registered under the PRC laws in accordance with a limited partnership agreement, is primarily engaged in, among other things, private equity investment, investment management and investment consultation. As at 30 June 2021, the total paid up capital contribution was RMB30,930,080 thousands, of which RMB2,000,000 thousands was contributed by the Group.

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

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE PERIOD UNDER REVIEW

On 30 March 2021 (after trading hours of the Hong Kong Stock Exchange), Nanjing Gear Enterprise Management Co., Ltd.* (南京高齒企業管理有限公司) (the “Vendor”), an indirect wholly-owned subsidiary of the Company, and Nanjing High Speed Gear Manufacturing Co., Ltd.* (南京高速齒輪製造有限公司) (“Nanjing High Speed”), a direct non-wholly owned subsidiary of the Vendor and an indirect non-wholly owned subsidiary of the Company, entered into an equity transfer agreement (the “Equity Transfer Agreement”) with Shanghai Wensheng Asset Management Co., Ltd. (上海文盛資產管理股份有限公司) (the “Purchaser”), pursuant to which the Vendor agreed to sell and the Purchaser agreed to purchase an aggregate of 43% of the equity interest of Nanjing High Speed at the consideration of RMB4.3 billion (the “Disposal”). Pursuant to the Equity Transfer Agreement, if the transferee is not the Purchaser itself, the identity of the transferee is restricted to be a legal entity controlled or jointly controlled directly or indirectly by the Purchaser. The transferee is not the Purchaser itself and the transferee is Shanghai Qiwo Enterprise Management Partnership (Limited Partnership)* (上海其沃企業管理合夥企業(有限合夥)) (the “Transferee”). Also, pursuant to the Equity Transfer Agreement, the Vendor granted a put option to the Transferee, which the Transferee could request the Vendor to repurchase all the equity interest of Nanjing High Speed acquired by the Transferee under certain conditions, at the Transferee’s discretion, at an exercise price as set out in the Equity Transfer Agreement. Upon completion of the Disposal, the equity interest in Nanjing High Speed to be held by our Group will decrease to approximately 50.02%, Nanjing High Speed will continue to be a subsidiary of the Group.

As at 30 June 2021, the Vendor has received RMB1,000,000,000 as the first instalment of the consideration in accordance with the Equity Transfer Agreement.

On 15 July 2021, the Purchaser, the Vendor, Nanjing High Speed and the Transferee entered into a supplemental agreement to the Equity Transfer Agreement (the “Supplemental Agreement”). Pursuant to the Supplemental Agreement, the payment schedule of the second and the remaining instalments of the consideration for the Disposal has been extended.

As at the date of this report, the industrial and commerce registration for the transfer of the 37% of the equity interest in Nanjing High Speed (the “First Batch Sale Interest”) to the Transferee was completed and the remaining 6% of the equity interest in Nanjing High Speed will be transferred to the Transferee upon receiving the second and remaining instalments as specified in the Equity Transfer Agreement and the Supplemental Agreement. To secure the payment obligations of the Transferee, a pledge of First Batch Sale Interest was made in favour of the Vendor by the Transferee. The Disposal constituted a major transaction for the Company under Chapter 14 of the Listing Rules.

For further details of the Disposal, please refer to the joint announcements of Fullshare Holdings Limited (“Fullshare Holdings”) and the Company dated 30 March 2021 and 15 July 2021 and the circular of the Company dated 26 May 2021.

Save as the Disposal disclosed above and note 26 to the condensed consolidated financial statements, during the Period under Review, the Group did not conduct any other significant acquisition or disposal of subsidiaries and associates.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

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

EVENTS AFTER THE REPORTING PERIOD

Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.* (南京高精傳動設備製造集團有限公司), an indirect wholly-owned subsidiary of the Company and Nanjing High Speed, disposed an aggregate of 26,099,071 shares of Riyue Heavy Industry Co., Ltd. (日月重工股份有限公司), a company established in the PRC with limited liability, the shares of which are listed on the Shanghai Stock Exchange (stock code: 603218.SH), through open market and block trade in a series of transactions conducted during the period between 3 August 2020 and 20 July 2021 at a consideration of approximately RMB599,865,000 (after deducting transaction costs) (the “Disposal of Listed Securities”). The Disposal of Listed Securities constituted a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

For further details of the Disposal of Listed Securities, please refer to the announcement of the Company dated 20 July 2021.

Saved as disclosed above, there was no significant event that took place after 30 June 2021.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

During the Period under Review, the Company has complied with the code provisions set out in the Corporate Governance Code (“Corporate Governance Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange, except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

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

DIRECTORS

Mr. Hu Jichun, Mr. Zhou Zhijin, Mr. Fang Jian, Mr. Jiang Xihe and Mr. Nathan Yu Li were re-elected as Directors by shareholders at the 2020 annual general meeting of the Company held on 25 June 2021.

The composition of the Board was as follows:

Executive Directors:

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

Mr. Hu Yueming

Mr. Chen Yongdao

Mr. Wang Zhengbing

Mr. Zhou Zhijin

Ms. Zheng Qing

Mr. Gu Xiaobin

Mr. Fang Jian

Independent Non-executive Directors:

Mr. Jiang Xihe

Ms. Jiang Jianhua

Dr. Chan Yau Ching, Bob

Mr. Nathan Yu Li

CORPORATE GOVERNANCE AND OTHER INFORMATION

Mr. Hu Yueming is the father of Mr. Hu Jichun. Apart from this, each of the Directors has no financial, business or family relationship with any other Directors, senior management or substantial or controlling shareholders of the Company.

During the Period under Review, in compliance with Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed as least three independent non-executive Directors and at least one independent non-executive Director has accounting or financial management expertise. The Company has also complied with Rule 3.10A of the Listing Rules, as the number of independent non-executive Director represents at least one-third of the Board.

DIRECTORS' REMUNERATION

For the six months ended 30 June 2021, Directors' remuneration (including any fixed or discretionary bonuses and the payment prescribed in the service contract) was RMB9,318,000. Details of which are set out in the note 25(c) to the condensed consolidated financial statements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standards set out in the Model Code during the Period under Review. The Company will continue to ensure the compliance with the Model Code.

SHARE OPTION SCHEME

As at 30 June 2021, the Group did not adopt any share option schemes.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Group had not purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

AUDIT COMMITTEE

The Company established the audit committee as approved by the Board on 8 June 2007 in accordance with Rule 3.21 of the Listing Rules. The audit committee currently comprises three independent non-executive Directors, namely Mr. Jiang Xihe, Dr. Chan Yau Ching, Bob and Mr. Nathan Yu Li. Mr. Jiang Xihe is the chairman of the audit committee.

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

The Group's 2021 interim report and unaudited condensed consolidated financial statements for the six months ended 30 June 2021 have been reviewed by the audit committee. The audit committee considered that the financial statements are in compliance with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

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 and 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 (including benefits in kind, pension rights and compensation payments, compensation 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.

NOMINATION COMMITTEE

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

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

The Company adopted the board diversity policy on 1 September 2013 and strives to select the most appropriate candidates to be appointed as members of the Board. The selection of suitable candidates for directorship will be based on a range of diversity criteria 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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2021, save as disclosed below, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) 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 Securities and Futures Ordinance (including interests or short positions in which they were taken or deemed to have under such provisions of the Securities and Futures Ordinance), or which would be required, pursuant to Section 352 of the Securities and Futures Ordinance, to be recorded in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code. 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.

ASSOCIATED CORPORATION

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2021, the following persons (other than the Directors or the 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 Securities and Futures Ordinance or which would be required, pursuant to Section 336 of the Securities and Futures Ordinance, to be entered in the register referred to therein:

Name	Nature of interest	Number of ordinary shares held	Approximate percentage to the issued shares of the Company (%)
Five Seasons XVI Limited ("Five Seasons") (Note 1)	Beneficial owner	1,208,577,693 (Long Position)	73.91 (Long Position)
Fullshare Holdings	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)

Notes:

- (1) Five Seasons, a company incorporated in the British Virgin Islands, is wholly owned by Fullshare Holdings (stock code: 607), while the issued share capital of Fullshare Holdings is owned as to 38.69% by Magnolia Wealth, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Ji. Accordingly, Fullshare Holdings, Magnolia Wealth and Mr. Ji are considered to have interests in 1,208,577,693 shares of the Company, representing approximately 73.91% of the issued shares of the Company.
- (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.
- (3) Five Seasons is owned more than one-third of interest of controlled corporation by Mr. Ji and Glorious Time is wholly-owned by Mr. Ji. Accordingly, Mr. Ji is considered to have interests in 1,226,467,693 shares of the Company, representing approximately 74.99% of the issued shares of the Company.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above and so far as the Directors are aware of, as at 30 June 2021, 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 Securities and Futures Ordinance, or which would be required, pursuant to Section 336 of the Securities and Futures Ordinance, to be entered in the register referred to therein.

INDEPENDENT REVIEW REPORT

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

INTRODUCTION

We have reviewed the interim condensed consolidated financial information of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") set out on pages 28 to 68, which comprises the interim condensed consolidated statement of financial position as at 30 June 2021, and the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months then ended and notes to the interim condensed consolidated financial information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim Financial Reporting, issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of the interim condensed consolidated financial information in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim condensed consolidated financial information and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim condensed consolidated financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

INDEPENDENT REVIEW REPORT *(continued)*

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information for the six months ended 30 June 2021 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 27 August 2021
Chan Sai Ho
Practising certificate number P07705

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2021

	Note	Unaudited	
		Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
Revenue from contracts with customers	5	10,601,507	5,468,796
Cost of sales		(8,795,527)	(4,295,627)
Gross profit		1,805,980	1,173,169
Selling and distribution expenses		(205,170)	(153,158)
Administrative expenses		(243,894)	(270,990)
Research and development costs		(451,007)	(230,093)
Net impairment losses recognised on financial assets	17	(28,974)	(142,534)
Other income	6	135,641	106,909
Other (losses)/gains – net	7	(38,339)	37,186
Operating profit		974,237	520,489
Finance income	9	30,634	41,209
Finance costs	9	(135,550)	(195,217)
Finance costs – net		(104,916)	(154,008)
Share of results of associates and joint ventures accounted for using the equity method		10,847	17,053
Profit before income tax		880,168	383,534
Income tax expenses	10	(119,350)	(85,314)
Profit for the period		760,818	298,220
Profit/(loss) for the period attributable to:			
– Owners of the Company		722,802	302,429
– Non-controlling interests		38,016	(4,209)
		760,818	298,220
Earnings per share for profit attributable to owners of the Company (expressed in RMB)			
Basic and diluted earnings per share	11	0.442	0.185

The accompanying notes are an integral part of the interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2021

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Profit for the period	760,818	298,220
Other comprehensive income/(loss):		
<i>Items that may be reclassified to profit or loss</i>		
– Changes in the fair value of debt investments at fair value through other comprehensive income	3,207	2,833
– Exchange differences on translation of foreign operations	(3,715)	(9,230)
– Income tax relating to these items	(507)	(2,203)
	(1,015)	(8,600)
<i>Items that will not be reclassified to profit or loss</i>		
– Changes in the fair value of equity instruments at fair value through other comprehensive income	(141,575)	73,693
– Income tax relating to these items	35,156	(17,782)
	(106,419)	55,911
Other comprehensive (loss)/income, net of tax	(107,434)	47,311
Total comprehensive income for the period	653,384	345,531
Total comprehensive income/(loss) attributable to:		
– Owners of the Company	616,094	349,740
– Non-controlling interests	37,290	(4,209)
	653,384	345,531

The accompanying notes are an integral part of the interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Non-current assets			
Property, plant and equipment	13	4,185,851	3,832,318
Right-of-use assets	13	639,075	646,930
Goodwill		26,414	26,414
Investments accounted for using the equity method		357,067	346,220
Financial assets at fair value through other comprehensive Income ("FVOCI")	14	2,185,717	2,480,576
Financial assets at fair value through profit or loss ("FVPL")	15	351,402	340,000
Other financial assets at amortised cost	16	592,538	576,421
Deposits for land leases		56,620	5,890
Deferred tax assets		312,015	258,122
		8,706,699	8,512,891
Current assets			
Inventories		4,018,762	3,703,960
Trade receivables	17	4,997,486	3,100,118
Other receivables	17	1,178,706	1,642,832
Prepayments	18	1,242,232	1,115,896
Financial assets at fair value through other comprehensive income	14	2,168,784	3,422,363
Financial assets at fair value through profit or loss	15	511,381	515,126
Income tax prepaid		217	355
Pledged bank deposits	19	2,827,702	1,653,224
Cash and cash equivalents	19	2,971,314	2,184,334
		19,916,584	17,338,208

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 30 June 2021

		Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Current liabilities			
Trade payables	20	3,240,968	3,114,085
Bills payable	20	4,445,463	3,250,469
Other payables	20	1,960,540	767,311
Contract liabilities		1,156,963	2,203,973
Borrowings	21	3,054,575	2,378,970
Deferred income		17,124	19,654
Income tax payable		212,821	231,952
Warranty provision		646,541	578,595
		14,734,995	12,545,009
Net current assets		5,181,589	4,793,199
Total assets less current liabilities		13,888,288	13,306,090
Non-current liabilities			
Deferred income		172,907	177,551
Warranty provision		479,772	372,480
Deferred tax liabilities		79,017	132,851
		731,696	682,882
Net assets		13,156,592	12,623,208
Capital and reserves			
Share capital		119,218	119,218
Reserves		12,712,210	12,096,116
Equity attributable to owners of the Company		12,831,428	12,215,334
Non-controlling interests		325,164	407,874
Total equity		13,156,592	12,623,208

The accompanying notes are an integral part of the interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the Company					Non controlling interests RMB'000	Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000			
At 1 January 2020 (audited)	119,218	5,301,672	5,786,153	11,207,043	122,355	11,329,398	
Profit/(loss) for the period	-	-	302,429	302,429	(4,209)	298,220	
Other comprehensive income for the period	-	47,311	-	47,311	-	47,311	
Total comprehensive income/(loss) for the period	-	47,311	302,429	349,740	(4,209)	345,531	
Dividends recognised as distribution	-	(299,193)	-	(299,193)	-	(299,193)	
Deemed disposal of a subsidiary	-	-	-	-	(87,641)	(87,641)	
At 30 June 2020 (unaudited)	119,218	5,049,790	6,088,582	11,257,590	30,505	11,288,095	
At 1 January 2021 (audited)	119,218	5,232,500	6,863,616	12,215,334	407,874	12,623,208	
Profit for the period	-	-	722,802	722,802	38,016	760,818	
Other comprehensive loss for the period	-	(106,708)	-	(106,708)	(726)	(107,434)	
Total comprehensive (loss)/income for the period	-	(106,708)	722,802	616,094	37,290	653,384	
Disposal of financial assets at FVOCI	-	(74,801)	74,801	-	-	-	
Dividends declared to non-controlling interests	-	-	-	-	(89,302)	(89,302)	
Disposal of subsidiaries 26	-	-	-	-	(30,698)	(30,698)	
At 30 June 2021 (unaudited)	119,218	5,050,991	7,661,219	12,831,428	325,164	13,156,592	

The accompanying notes are an integral part of the interim condensed consolidated financial information.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Note	Unaudited	
		Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		351,582	1,103,549
Income tax refunded		–	45,930
Income tax paid		(211,422)	(21,532)
Net cash generated from operating activities		140,160	1,127,947
Cash flows from investing activities			
Placements of pledged bank deposits		(4,478,318)	(2,970,394)
Withdrawal of pledged bank deposits		3,303,840	3,279,638
Investment in structured bank deposits		(355,000)	(363,000)
Redemption of structured bank deposits		450,996	188,570
Purchases of property, plant and equipment		(583,248)	(197,301)
Payment for land leases deposits		(50,730)	–
Proceeds from disposal of property, plant and equipment		15,641	9,095
Proceeds from sale of financial assets at fair value through other comprehensive income		123,286	–
Dividends received from financial assets at fair value through other comprehensive income	6	23,604	8,719
Redemption of financial assets at fair value through profit or loss		–	1,500
Redemption of other financial assets at amortised cost		–	254,050
Interests received		23,901	44,781
Dividend from an associate		–	15,000
Net cash inflow on disposal of subsidiaries	26	10,852	–
Net cash outflow from deemed disposal of a subsidiary		–	(40)
Consideration received for disposal of discontinued operations		–	179,546
Receipt of consideration receivables		149,000	2,157
Receipt of government grants		2,735	145,671
Loans to third parties		(50,000)	(760,455)
Receipt of loans receivable and other receivables		530,354	768,435
Net cash (used in)/generated from investing activities		(883,087)	605,972

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the six months ended 30 June 2021

	Note	Unaudited	
		Six months ended 30 June	
		2021	2020
		RMB'000	RMB'000
Cash flows from financing activities			
Proceeds from borrowings		2,571,575	2,288,454
Repayment of borrowings		(1,895,970)	(2,046,500)
Redemption of corporate bonds		–	(900,000)
Interest paid		(135,518)	(189,199)
Consideration received for partial disposal of a subsidiary without loss of control	27	1,000,000	–
Dividends paid to owners of the Company		–	(299,193)
Net cash generated from/(used in) financing activities		1,540,087	(1,146,438)
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		2,184,334	2,520,415
Effect of foreign exchange rate changes		(10,180)	6,230
Cash and cash equivalents at the end of the period		2,971,314	3,114,126

The accompanying notes are an integral part of the interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2021

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

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

As at 30 June 2021, total shares of the Company were 1,635,291 thousands (31 December 2020: 1,635,291 thousands).

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

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 27 August 2021.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2021 has been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“IASB”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

This interim condensed consolidated financial information has been prepared in accordance with the same accounting policies adopted in the Group’s 2020 annual consolidated financial statements, except for the adoption of amendments to accounting policies, as set out in Note 3.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

2 BASIS OF PREPARATION *(Continued)*

The preparation of interim condensed consolidated financial information in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim condensed consolidated financial information for the six months ended 30 June 2021 contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the Group's 2020 annual consolidated financial statements. This interim condensed consolidated financial information and notes thereon do not include all of the information and disclosures required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"), and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2020.

This interim condensed consolidated financial information is unaudited, but has been reviewed by the Audit Committee. It has also been reviewed by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity, issued by the Hong Kong Institute of Certified Public Accountants.

3 CHANGES IN ACCOUNTING POLICIES

Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2"

In the current period, the Group has applied Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 "Interest Rate Benchmark Reform – Phase 2" (the "Amendments") issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2021.

The Amendments provide practical expedients to address issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes in the basis for determining the contractual cash flows and hedge accounting as a result of interest rate benchmark reform. The Amendments also set out the disclosure requirements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

A number of new standards and amendments to standards are effective for annual period beginning on or after 1 January 2022 and earlier application is permitted. The Group has not early adopted any of the forthcoming new or amended standards in preparing this interim condensed consolidated financial information.

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2021 and 31 December 2020 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market price 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 INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

The following tables set out the Group's financial assets that were measured at fair value as at 30 June 2021 and 31 December 2020:

Recurring fair value measurements	Level 1	Level 2	Level 3	Total
At 30 June 2021 (unaudited)	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at FVPL	–	–	862,783	862,783
Financial assets at FVOCI	164,427	–	4,190,074	4,354,501
	164,427	–	5,052,857	5,217,284

	Level 1	Level 2	Level 3	Total
At 31 December 2020 (audited)	RMB'000	RMB'000	RMB'000	RMB'000
Financial assets				
Financial assets at FVPL	–	–	855,126	855,126
Financial assets at FVOCI	222,108	–	5,680,831	5,902,939
	222,108	–	6,535,957	6,758,065

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 six months ended 30 June 2021.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2021 and 31 December 2020.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

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

The following table presents the changes in level 3 items for the six months ended 30 June 2021 and 2020:

	Financial assets at FVPL					Financial assets at FVOCI		Financial
	Unlisted equity investments RMB'000	Unlisted debt investments RMB'000	Trade receivables RMB'000	Derivatives financial instrument RMB'000	Structured bank deposits RMB'000	Unlisted equity investments RMB'000	Bills receivables RMB'000	Total assets RMB'000
At 1 January 2020 (audited)	9,812	1,500	86,340	541,900	155,480	2,245,093	2,778,409	5,818,534
Acquisitions	-	-	235,932	-	363,000	-	137,477	736,409
Disposals	-	(1,500)	-	-	(188,570)	-	-	(190,070)
(Losses)/gains recognised in profit or loss	-	-	(1,911)	18,684	4,695	-	-	21,468
(Losses)/gains recognised in other comprehensive income	-	-	-	-	-	(5,045)	2,833	(2,212)
At 30 June 2020 (unaudited)	9,812	-	320,361	560,584	334,605	2,240,048	2,918,719	6,384,129
At 1 January 2021 (audited)	349,812	-	185,269	-	320,045	2,258,468	3,422,363	6,535,957
Acquisitions	-	-	90,104	-	355,000	-	-	445,104
Disposals	-	-	-	-	(450,996)	(100,000)	(1,256,786)	(1,807,782)
Gains/(losses) recognised in profit or loss	11,450	-	(1,352)	-	3,451	-	-	13,549
(Losses)/gains recognised in other comprehensive income	-	-	-	-	-	(137,178)	3,207	(133,971)
At 30 June 2021 (unaudited)	361,262	-	274,021	-	227,500	2,021,290	2,168,784	5,052,857

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(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				
- Unlisted equity investments	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flows; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flows, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value
- Trade receivables				
- Structured bank deposits				
Financial assets at FVOCI				
- Unlisted equity investments	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flows; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flows, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value
- Bills receivable				
		Net asset value approach	N/A	N/A
		Market comparison approach	Discount for lack of marketability	The lower the discount rate, the higher the fair value

(iii) Sensitivity analysis

The sensitivity analysis has been determined based on the change of rate of return in isolation used in the expected future cash flows that reflect the expected risk level of the financial assets at the end of each of the reporting periods. If the respective rate of return of the respective financial assets had been 10% higher/lower, the total comprehensive income (net of tax) for the six months ended 30 June 2021 would have increased/decreased by approximately RMB9,401 thousands (six months ended 30 June 2020: RMB7,394 thousands) as a result of the changes in fair value of the financial assets.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

5 OPERATING SEGMENT INFORMATION

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

In prior period, the Group's operating segments were based on geographical location of customers, there were four operating segments namely (i) The People's Republic of China (the "PRC"); (ii) the United States of America (the "USA"); (iii) Europe; and (iv) other countries.

In recent years, the Group began to undertake an expansion of its trading business. During the current period, owing to the growing size of trading business, and considering the Group's internal restructuring last year, the CODM revised the basis and presentation of the segment as detailed below. The CODM believes the current reportable segments could provide better summary to them in reviewing the Group's operating performance and making decision in resource allocation. Accordingly, the comparative figures of the reportable segments have been re-presented for the purpose of presenting segment information.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

5 OPERATING SEGMENT INFORMATION *(Continued)*

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

5 OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
For the six months ended 30 June 2021					
(unaudited)					
Segment revenue					
Total segment revenue	7,219,641	203,254	3,149,579	31,670	10,604,144
Inter-segment revenue	(2,129)	(508)	-	-	(2,637)
Revenue from external customers	7,217,512	202,746	3,149,579	31,670	10,601,507
Timing of revenue recognition					
At a point in time	7,217,512	202,746	3,149,579	31,670	10,601,507
Segment results	900,916	59,495	41,634	(24,178)	977,867
<i>Reconciliation:</i>					
Finance costs – net					(104,916)
Dividend income					23,604
Foreign exchange losses, net					(31,325)
Fair value gains on financial assets at FVPL					13,549
Share of results of associates and joint ventures					10,847
Corporate and other unallocated expenses					(9,458)
Profit before income tax					880,168

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
Other segment information					
Write-down of inventories	140,610	1,666	–	–	142,276
Net impairment losses on financial assets	21,239	3,541	805	2,981	28,566
Impairment losses on property, plant and equipment	22,100	–	–	–	22,100
Impairment losses on prepayments	427	–	–	–	427
Depreciation and amortisation	184,580	1,933	19	254	186,786
Capital expenditure	565,853	17,377	48	22	583,300
As at 30 June 2021 (unaudited)					
Segment assets	14,257,408	466,169	2,003,869	681,533	17,408,979
<i>Reconciliation:</i>					
Corporate and other unallocated assets					11,214,304
Total assets					28,623,283
Segment liabilities	10,491,164	178,236	214,249	15,098	10,898,747
<i>Reconciliation:</i>					
Corporate and other unallocated liabilities					4,567,944
Total liabilities					15,466,691

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

5 OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information (Continued)

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
For the six months ended 30 June 2020 (unaudited and restated)					
Segment revenue					
Total segment revenue	5,320,119	133,333	–	17,988	5,471,440
Inter-segment revenue	(694)	(1,950)	–	–	(2,644)
Revenue from external customers	5,319,425	131,383	–	17,988	5,468,796
Timing of revenue recognition					
At a point in time	5,319,425	131,383	–	17,988	5,468,796
Segment results	498,965	24,001	–	(9,984)	512,982
<i>Reconciliation:</i>					
Finance costs – net					(154,008)
Dividend income					8,719
Foreign exchange gains, net					25,210
Fair value gains on financial assets at FVPL					21,468
Share of results of associates and joint ventures					17,053
Corporate and other unallocated expenses					(47,890)
Profit before income tax					383,534

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
Other segment information					
Write-down of inventories	32,593	656	–	–	33,249
Net impairment losses on financial assets	89,624	3,192	–	1,365	94,181
Impairment losses on property, plant and equipment	6,500	–	–	–	6,500
Impairment losses on prepayments	6,191	–	–	–	6,191
Depreciation and amortisation	203,559	2,176	–	262	205,997
Capital expenditure	93,483	11,004	–	16	104,503
As at 31 December 2020 (audited and restated)					
Segment assets	13,659,316	393,453	1,727,815	75,788	15,856,372
<i>Reconciliation:</i>					
Corporate and other unallocated assets					9,994,727
Total assets					25,851,099
Segment liabilities	10,091,647	140,033	141,671	14,768	10,388,119
<i>Reconciliation:</i>					
Corporate and other unallocated liabilities					2,839,772
Total liabilities					13,227,891

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

5 OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Revenue from external customers		
PRC	8,905,795	4,099,548
USA	1,007,732	801,366
Europe	86,490	190,430
Other countries	601,490	377,452
	10,601,507	5,468,796

6 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Dividend income from financial assets at FVOCI (Note 14)	23,604	8,719
Interest income from other financial assets at amortised cost (Note 16)	16,117	27,040
Government grants (Note)		
– Deferred income recognised	9,909	8,562
– Other government subsidies	28,431	17,568
Sale of scraps and materials	41,622	41,249
Gross fixed rental income	6,755	2,667
Others	9,203	1,104
	135,641	106,909

Note:

Government grants mainly represented grants from the PRC's local authority to support local companies.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

7 OTHER (LOSSES)/GAINS – NET

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Gains/(losses) on disposal of property, plant and equipment, net (Note 13)	1,126	(2,992)
Gains on disposal of subsidiaries (Note 26)	411	–
Foreign exchange (losses)/gains, net	(31,325)	25,210
Net fair value gains on financial assets at FVPL (Note 15(ii))	13,549	21,468
Impairment losses on property, plant and equipment	(22,100)	(6,500)
	(38,339)	37,186

8 EXPENSES BY NATURE

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Cost of inventories sold	8,133,022	3,610,598
Employee benefits expenses	760,035	647,770
Depreciation of property, plant and equipment	192,139	212,854
Depreciation of right-of-use assets	7,785	7,680
Write-down of inventories	142,276	33,249
Other expenses	460,341	437,717
Total cost of sales, selling and distribution expenses, research and development costs and administrative expenses	9,695,598	4,949,868

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

9 FINANCE INCOME AND COSTS

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Finance income		
Bank interest income	30,634	41,209
Finance costs		
Interest expenses	(135,550)	(195,217)
Finance costs – net	(104,916)	(154,008)

10 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Current income tax – charge for the period		
– PRC	154,658	69,437
– Hong Kong	12,537	11,440
– Others	300	62
	167,495	80,939
Deferred tax	(48,145)	4,375
Income tax expenses	119,350	85,314

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

10 INCOME TAX EXPENSES *(Continued)*

(a) PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% on the taxable profits of the Group's PRC subsidiaries for the six months ended 30 June 2021 (six months ended 30 June 2020: 25%).

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

Name of company	Year ended during which approval was obtained	Year ending during which approval will expire
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed")	31 December 2020	31 December 2022
Nanjing High Speed & Accurate Gear (Group) Co., Ltd.	31 December 2020	31 December 2022
Nanjing High Accurate Rail Transportation Equipment Co., Ltd.	31 December 2020	31 December 2022

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2021 (six months ended 30 June 2020: 16.5%).

(c) Other corporate income tax

Other corporate income tax has been provided at the rates of 8.5% to 18.5% on the estimated assessable profits arising from the jurisdictions at which the entities are operated (six months ended 30 June 2020: 8.5%).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

11 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 period.

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Net profit attributable to owners of the Company	722,802	302,429
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	1,635,291	1,635,291
Basic earnings per share (RMB)	0.442	0.185

No adjustment is made to the diluted earnings per share for the six months ended 30 June 2021 and 2020 as there was no potential dilutive shares in issue.

12 DIVIDENDS

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2021 (six months ended 30 June 2020: Nil).

13 PROPERTY, PLANT AND EQUIPMENT AND RIGHT-OF-USE ASSETS

During the six months ended 30 June 2021, the Group acquired property, plant and equipment and right-of-use assets with a cost of RMB583,302 thousands (six months ended 30 June 2020: RMB110,912 thousands) and RMB Nil (six months ended 30 June 2020: RMB6,284 thousands) respectively.

Property, plant and equipment with a net book value of RMB14,515 thousands (six months ended 30 June 2020: RMB11,457 thousands) were disposed by the Group during the six months ended 30 June 2021, resulting in a net gain on disposal of RMB1,126 thousands (six months ended 30 June 2020: net loss of RMB2,992 thousands).

At 30 June 2021, the Group is in the process of obtaining property certificates for the buildings and land use rights certificates in respect of land use rights located in the PRC with carrying amounts of RMB521,509 thousands and RMB102,119 thousands respectively (31 December 2020: RMB537,980 thousands and RMB141,361 thousands respectively).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Classification of financial assets at FVOCI

Financial assets measured at FVOCI include the following:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Non-current assets		
Listed equity investments (Note (a))	164,427	222,108
Unlisted equity investments (Note (b))	2,021,290	2,258,468
	2,185,717	2,480,576
Current assets		
Debt investments (Note (c))	2,168,784	3,422,363
	4,354,501	5,902,939

Notes:

(a) Listed equity investments

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Riyue Heavy Industry Co., Ltd.	132,941	195,233
Guodian Technology & Environmental Group Co., Ltd.	15,214	8,179
China PengFei Group Limited	16,272	18,696
	164,427	222,108

During the six months ended 30 June 2021, the Group has sold part of its shares in Riyue Heavy Industry Co., Ltd.. The shares sold had a fair value of RMB53,286 thousands and the Group realised a gain of RMB49,735 thousands which was included in other comprehensive income. This gain was transferred to retained earnings, net of tax of RMB12,434 thousands during the period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

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

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

(b) Unlisted equity investments

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership) (Note)	1,985,308	2,039,719
Jiangsu Zhong Bang Business Factoring Co., Ltd.	28,710	28,960
Su Yin Financial Leasing Co., Ltd.	–	183,180
Others	7,272	6,609
	2,021,290	2,258,468

Note:

On 17 April 2017, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. (“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 Investment Partnership (Limited Partnership) (“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 30 June 2021, the investment in Zhejiang Zheshang Chanrong had a fair value of RMB1,985,308 thousands (31 December 2020: RMB2,039,719 thousands) and a fair value loss of RMB54,411 thousands (six months ended 30 June 2020: fair value gain of RMB353 thousands) was recognised in other comprehensive income for the six months ended 30 June 2021.

(c) Debt investments

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

For the six months ended 30 June 2021, fair value gain of RMB3,207 thousands (six months ended 30 June 2020: fair value gain of RMB2,833 thousands) for bills receivable measured at FVOCI are recognised in other comprehensive income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

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

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

For the six months ended 30 June 2021 and 2020, the following (losses)/gains were recognised in profit or loss and other comprehensive income.

	Unaudited	
	Six months ended 30 June	
	2021	2020
	RMB'000	RMB'000
(Losses)/gains recognised in other comprehensive income	(138,368)	76,526
Dividends from equity investments held at FVOCI recognised in profit or loss in other income (Note 6)	23,604	8,719

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

Financial assets measured at FVPL include the following:

	Unaudited	Audited
	30 June	31 December
	2021	2020
	RMB'000	RMB'000
Non-current assets		
Unlisted equity investments (Note (a))	351,402	340,000
Current assets		
Structured bank deposits (Note (b))	227,500	320,045
Trade receivables measured at FVPL (Note (c))	274,021	185,269
Unlisted equity investments	9,860	9,812
	511,381	515,126
	862,783	855,126

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

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

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

Notes:

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

As at 30 June 2021, the investment in Ningbo Nangao Jingchuan, Ningbo Gaona Jingte and Ningbo Gaotai Jingli had a fair value of RMB124,005 thousands, RMB124,095 thousands and RMB103,302 thousands respectively (31 December 2020: RMB120,000 thousands, RMB120,000 thousands and RMB100,000 thousands respectively) and an aggregate fair value gain of RMB11,402 thousands was recognised in profit or loss during the six months ended 30 June 2021.

- (b) Structured bank deposits

As at 30 June 2021, structured bank deposits of RMB227,500 thousands (31 December 2020: RMB320,045 thousands) represented financial instruments placed by the Group to three (31 December 2020: three) banks in the PRC for a term within one year. The contract guarantees principal and proceeds are related to the performance of exchange rate on the market.

- (c) Trade receivables measured at FVPL

In 2018 and 2020, the Group entered into several agreements with two banks to sell all of its eligible trade receivables under certain customers and all right, title, interest and benefit the Group has in each such eligible trade receivables on a non-recourse basis without the need for any further action or documentation on the part of the Group or the banks, at a discount calculated based on the base rate and number of days for early payment as specified in the agreements.

As at 30 June 2021, such trade receivables held solely for selling purpose amounting to RMB274,021 thousands (31 December 2020: RMB185,269 thousands) were classified as financial assets at FVPL. For the six months ended 30 June 2021, fair value loss of RMB1,352 thousands (six months ended 30 June 2020: RMB1,911 thousands) for trade receivables measured at FVPL are recognised in other (losses)/gains – net.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

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

(ii) Amounts recognised in profit or loss

For the six months ended 30 June 2021 and 2020, the following gains were recognised in profit or loss:

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Fair value gains on equity investments at FVPL recognised in other gains – net (Note 7)	11,450	18,684
Fair value gains on debt investments at FVPL recognised in other gains – net (Note 7)	2,099	2,784
	13,549	21,468

16 OTHER FINANCIAL ASSETS AT AMORTISED COST

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Non-current asset		
Insurance investment (Note)	592,538	576,421

Note:

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 6.5% per annum. Interest and the principal amount are repayable at the maturity date.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

17 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trade receivables		
– Amounts due from third parties	5,532,820	3,673,273
– Amounts due from a joint venture	60,040	5,215
	5,592,860	3,678,488
Less: Loss allowances	(595,374)	(578,370)
	4,997,486	3,100,118
Other receivables		
– Amounts due from third parties	1,486,268	1,947,272
– Amounts due from associates	30,951	26,713
– Amount due from a joint venture	1,925	1,925
	1,519,144	1,975,910
Less: Loss allowances	(424,040)	(421,170)
	1,095,104	1,554,740
Value-added tax recoverable	83,602	88,092
	1,178,706	1,642,832
	6,176,192	4,742,950

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 set up a credit control department to actively monitor the status of its outstanding receivables and take proper actions in order to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

17 TRADE AND OTHER RECEIVABLES (Continued)

As at 30 June 2021, other receivables comprised of receivables from former subsidiaries of RMB544,010 thousands (31 December 2020: RMB890,024 thousands).

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Less than 90 days	3,533,154	2,695,596
90 to 180 days	1,077,682	193,705
181 to 365 days	238,623	104,940
1 to 2 years	102,599	68,272
Over 2 years	45,428	37,605
	4,997,486	3,100,118

Impairment of financial assets under expected credit loss model

The loss allowance for trade receivables at 30 June 2021 and 31 December 2020 was determined as follows:

	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
At 30 June 2021 (unaudited)						
Expected credit loss rate	2%	29%	52%	77%	100%	8%
Gross carrying amount – trade receivables assessed under provision matrix	4,944,309	144,107	59,046	72,179	185,707	5,405,348
Loss allowance under provision matrix	94,850	41,508	30,493	55,304	185,707	407,862
100% specifically provided	–	–	28,065	108,762	50,685	187,512
Loss allowance	94,850	41,508	58,558	164,066	236,392	595,374

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

17 TRADE AND OTHER RECEIVABLES (Continued)

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Over 4 years RMB'000	Total RMB'000
At 31 December 2020 (audited)						
Expected credit loss rate	2%	35%	56%	83%	100%	11%
Gross carrying amount						
– trade receivables assessed						
under provision matrix	3,064,594	104,256	65,355	54,704	202,067	3,490,976
Loss allowance under provision matrix	70,353	35,984	36,841	45,613	202,067	390,858
100% specifically provided	–	11,429	49,968	108,964	17,151	187,512
Loss allowance	70,353	47,413	86,809	154,577	219,218	578,370

For the six months ended 30 June 2021 and 2020, the following impairment losses were recognised in profit or loss:

	Unaudited Six months ended 30 June	
	2021 RMB'000	2020 RMB'000
Impairment losses recognised on trade receivables	26,101	91,343
Impairment losses recognised on other receivables	2,873	51,191
	28,974	142,534

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

18 PREPAYMENTS

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Prepayments		
– Amounts due from third parties	1,283,419	1,156,656
– Amounts due from associates	6,973	6,973
	1,290,392	1,163,629
Less: Impairment provision	(48,160)	(47,733)
	1,242,232	1,115,896

19 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Cash at banks and on hand	5,799,016	3,837,558
Less: Pledged bank deposits	(2,827,702)	(1,653,224)
Cash and cash equivalents	2,971,314	2,184,334

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 INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

20 TRADE, BILLS AND OTHER PAYABLES

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Trade payables		
– Amounts due to third parties	3,239,697	3,112,705
– Amounts due to an associate	144	253
– Amount due to a joint venture	1,127	1,127
	3,240,968	3,114,085
Bills payable	4,445,463	3,250,469
	7,686,431	6,364,554
Other payables		
– Accruals	241,910	65,984
– Other tax payables	34,772	36,742
– Purchases of property, plant and equipment	93,629	93,574
– Payroll and welfare payables	102,021	192,811
– Financial guarantee liability (Note 22(i))	6,730	7,103
– Consideration received for partial disposal of a subsidiary (Note)	1,000,000	–
– Amounts due to third parties	392,063	370,995
– Dividends payable to non-controlling interests	89,302	–
– Amount due to a joint venture	113	102
	1,960,540	767,311
	9,646,971	7,131,865

Note:

As at 30 June 2021, the Group has received RMB1,000,000 thousands as the first instalment of the consideration for its disposal of 43% equity interest in Nanjing High Speed, details of which are set out in Note 27 to the interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

20 TRADE, BILLS AND OTHER PAYABLES (Continued)

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
0 to 30 days	3,521,545	3,062,192
31 to 60 days	187,459	558,016
61 to 180 days	3,214,512	873,572
181 to 365 days	621,175	1,428,972
Over 365 days	141,740	441,802
	7,686,431	6,364,554

21 BORROWINGS

	Unaudited 30 June 2021		Audited 31 December 2020	
	Effective interest rate	RMB'000	Effective interest rate	RMB'000
	%		%	
Current				
Bank loans – Unsecured	3.00-5.22	2,681,385	3.45 – 5.44	1,828,970
Bank loans – Secured	3.40-4.20	373,190	3.69 – 5.44	550,000
		3,054,575		2,378,970

Note:

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in Note 24.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

22 CONTINGENT LIABILITIES

(i) Financial guarantees

As at 30 June 2021, the Group issued financial guarantees to banks in respect of bank loans of RMB232,014 thousands granted to one of the Group's associates and RMB20,000 thousands granted to an independent third party (31 December 2020: RMB290,012 thousands granted to one of the Group's associates and RMB442,000 thousands granted to two independent third parties). This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At the end of the reporting period, an amount of RMB6,730 thousands (31 December 2020: RMB7,103 thousands) has been recognised in the interim condensed consolidated statement of financial position as liabilities.

(ii) Outstanding litigation

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

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

Upon the date of the approval of this interim condensed consolidated financial information, the Claim was under trial and has not yet been judged. The independent lawyers engaged by the Group believe that there are solid arguments to rebut the Claim on the merits and is of a view that the settlement value to this case which would be substantially below 50% of the total Claimed Amount. As at 30 June 2021, based on the assessment of the independent lawyers, a provision amounting to RMB8,066 thousands (31 December 2020: RMB8,066 thousands) was accrued by management.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

23 CAPITAL COMMITMENTS

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

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Contracted, but not provided for:		
Plant and machinery	1,078,582	438,377

24 ASSETS PLEDGED AS SECURITY

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:

	Unaudited 30 June 2021 RMB'000	Audited 31 December 2020 RMB'000
Bills receivable	952,416	1,202,626
Property, plant and equipment	552,280	600,754
Land use rights	144,272	146,068
Pledged bank deposits	2,827,702	1,653,224
	4,476,670	3,602,672

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

25 RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in this interim condensed consolidated financial information, the Group had the following significant transactions with related parties during the period:

	Unaudited	
	Six-months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Associates:		
Purchases of products (Note (i))	15	28,978
Sales of products (Note (ii))	86	–
Joint ventures:		
Sales of products (Note (ii))	87,091	11,751

Notes:

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

The Group's trade and other balances with its associates, joint ventures and other related parties as at the end of the reporting period are disclosed in Notes 17, 18 and 20 to this interim condensed consolidated financial information.

- (c) Compensation of key management personnel of the Group:

	Unaudited	
	Six-months ended 30 June	
	2021	2020
	RMB'000	RMB'000
Fees	499	658
Salaries and other emoluments	8,819	7,819
	9,318	8,477

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

26 DISPOSAL OF SUBSIDIARIES

In March 2021, Nanjing High Speed entered into an agreement with an independent third party to dispose of its 51% equity interest in Henan Zhongchuan Equipment Co., Ltd. (“Henan Zhongchuan”) at a total cash consideration of RMB32,000 thousands.

In June 2021, Jiangsu Green Lighting Engineering Co., Ltd. (“Green Lighting”), a non-wholly owned subsidiary of the Group, entered into an agreement with the other shareholder of Green Lighting to dispose of its 70% equity interest in Nanjing Ruisiqi Intelligent Technology Co., Ltd. (“Nanjing Ruisiqi”) at a total cash consideration of RMB561 thousands.

The net assets of Henan Zhongchuan and Nanjing Ruisiqi at the date of disposal and the resulting gain on disposal recognised were as follows:

	Unaudited		
	Henan Zhongchuan RMB'000	Nanjing Ruisiqi RMB'000	Total RMB'000
Cash and cash equivalents	20,337	811	21,148
Trade receivables	3,635	1,859	5,494
Other receivables	37,659	387	38,046
Prepayments	–	26	26
Financial assets at FVOCI	50	–	50
Inventories	330	2,511	2,841
Property, plant and equipment	444	27	471
Trade payables	(83)	(1,789)	(1,872)
Other payables	(34)	(3,322)	(3,356)
Net assets disposed of	62,338	510	62,848
Non-controlling interests	(30,546)	(152)	(30,698)
Gain on disposal	208	203	411
Total consideration	32,000	561	32,561
Satisfied by:			
Cash	32,000	–	32,000
Deferred cash consideration (Note)	–	561	561
	32,000	561	32,561

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2021

26 DISPOSAL OF SUBSIDIARIES (Continued)

Note:

As at the date of approval of this interim condensed consolidated financial information, the deferred consideration has been received.

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

	Henan Zhongchuan RMB'000	Unaudited Nanjing Ruisiqi RMB'000	Total RMB'000
Cash consideration received	32,000	–	32,000
Cash and cash equivalents disposed of	(20,337)	(811)	(21,148)
Net cash inflow/(outflow) in respect of the disposal of subsidiaries	11,663	(811)	10,852

27 PARTIAL DISPOSAL OF INTEREST IN A SUBSIDIARY WITHOUT LOSS OF CONTROL

On 30 March 2021, Nanjing Gear Enterprise Management Co., Ltd. (“Nanjing Gear”), a wholly-owned subsidiary of the Group, and Nanjing High Speed entered into an equity transfer agreement (the “Equity Transfer Agreement”) with Shanghai Wensheng Asset Management Co., Ltd. (the “Purchaser”), an independent third party, to dispose 43% of the equity interests of Nanjing High Speed at a consideration of RMB4,300,000 thousands (the “Disposal”). Pursuant to the Equity Transfer Agreement, if the transferee is not the Purchaser itself, the identity of the transferee is restricted to be a legal entity controlled or jointly controlled directly or indirectly by the Purchaser. The transferee is not the Purchaser itself and the transferee is Shanghai Qiwo Enterprise Management Partnership (Limited Partnership) (the “Transferee”). As a part of the Equity Transfer Agreement, Nanjing Gear grants a put option to the Transferee, which the Transferee could request Nanjing Gear to repurchase all the equity interest of Nanjing High Speed acquired by the Transferee during the 3 years from the completion date of the Disposal under certain conditions, at the Transferee’s discretion, at an exercise price as set out in the Equity Transfer Agreement. After the completion of the Disposal, the Group’s equity interest in Nanjing High Speed will decrease to approximately 50.02%, Nanjing High Speed will continue to be a subsidiary of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2021

27 PARTIAL DISPOSAL OF INTEREST IN A SUBSIDIARY WITHOUT LOSS OF CONTROL *(Continued)*

As at 30 June 2021, Nanjing Gear has received RMB1,000,000 thousands as the first instalment of the consideration.

On 15 July 2021, a supplemental agreement to the Equity Transfer Agreement was entered, which extended the payment schedule of the second and the remaining instalments of the consideration for the Disposal.

As at the date of approval of this interim condensed consolidated financial information, the Disposal has not yet been completed.

Details of the Disposal are set out in the Company's announcements dated 30 March 2021 and 15 July 2021 and the Company's circular dated 26 May 2021.