



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)

2023

ANNUAL REPORT

* For identification purpose only



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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. 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

VISTRA (CAYMAN) LIMITED

P.O. Box 31119

Grand Pavilion, Hibiscus Way

802 West Bay Road

Grand Cayman KY1 – 1205

Cayman Islands

AUDITOR

Baker Tilly Hong Kong Limited

LEGAL ADVISER

DeHeng Law Offices (Hong Kong) LLP

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

Walkers Corporate Limited

190 Elgin Avenue, George Town

Grand Cayman KY1-9008

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

ICBC
Bank of Communications
Export-import Bank of China
China Merchants Bank
Bank of Jiangsu
China Construction Bank
SPD Bank
Bank of Beijing
China Minsheng Bank
Bank of Ningbo
Huaxia Bank
Everbright 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

	Year ended 31 December 2023 RMB'000	Year ended 31 December 2022 RMB'000	Change
Revenue from contracts with customers	24,077,148	21,079,654	14.2%
Gross Profit	3,394,785	3,263,232	4.0%
Profit for the year attributable to owners of the Company	95,517	101,599	-6.0%
Basic and diluted earnings per share (<i>RMB</i>)	0.058	0.062	-6.5%
	As at 31 December 2023 RMB'000	As at 31 December 2022 RMB'000	Change
Total assets	41,700,395	41,634,453	0.2%
Total liabilities	27,788,171	28,039,883	-0.9%
Net assets	13,912,224	13,594,570	2.3%
Net assets per share (<i>RMB</i>)	8.5	8.3	2.4%
Gearing ratio* (%)	66.6	67.3	-0.7 percentage point

* Gearing ratio = total liabilities/total assets

FIVE-YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
RESULTS					
Revenue from contracts with customers	24,077,148	21,079,654	20,210,526	15,368,511	9,722,896
Profit for the year	615,236	644,211	1,396,860	851,056	417,611
Profit for the year attributable to owners of the Company	95,517	101,599	1,315,245	840,906	438,188

	Year ended 31 December				
	2023 RMB'000	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000
ASSETS AND LIABILITIES					
Total assets	41,700,395	41,634,453	29,640,474	25,851,099	24,858,848
Total liabilities	(27,788,171)	(28,039,883)	(15,872,439)	(13,227,891)	(13,529,450)
	13,912,224	13,594,570	13,768,035	12,623,208	11,329,398
Attributable to:					
Owners of the Company	10,273,310	10,475,951	13,399,195	12,215,334	11,207,043
Non-controlling interests	3,638,914	3,118,619	368,840	407,874	122,355
	13,912,224	13,594,570	13,768,035	12,623,208	11,329,398

CHAIRMAN'S STATEMENT

I am pleased to present the 2023 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the “Company” or “China High Speed Transmission”). For the year ended 31 December 2023 (the “Year” or the “Reporting Period”), the Company and its subsidiaries (collectively referred to as the “Group”) recorded sales revenue of approximately RMB24,077,148,000, representing an increase of approximately 14.2% from 2022. Profit attributable to owners of the Company was approximately RMB95,517,000, representing a decrease of approximately 6.0% as compared with 2022. China High Speed Transmission continued to lead high-end equipment industry in China with its strong research, design and development capabilities, which contribute positively for the adjustment of China’s energy structure, the promotion of sustainable economic and social development, and the achievement of “dual carbon” goals.

Under the impact of non-economic factors such as geopolitical confrontation, high inflation and natural disasters since 2023, global economic growth momentum is obviously insufficient. Against this backdrop, the fleet of China’s economy has been pressing ahead in achieving its objective of growth as planned with its strong resilience and uninterrupted new powers. According to statistics released by the National Bureau of Statistics of China, China’s annual GDP was approximately RMB126.06 trillion, increasing by approximately 5.2% year-on-year at constant prices, based on preliminary calculations, ranking among the best among emerging markets, demonstrated itself as the world’s largest growth engine with its outstanding results.

China’s wind power industry has experienced a significant development process and become an important player in the global wind power field. At the same time, being a renewable energy, wind power plays an increasingly important role with the goals of carbon peak and carbon neutrality in the background. According to the information released by Bloomberg New Energy Finance, China’s new wind power hoisting capacity in 2023 was 77.1GW, reaching a new record high level, representing an increase of 58% as compared to 2022. Of which, new onshore wind power has increased by 69.4GW, representing a year-on-year increase of 59%, while offshore wind power has increased by 7.6GW, representing a year-on-year increase of 48%.

CHAIRMAN'S STATEMENT

The Group is a leader in wind power transmission equipment, and our product technology has reached international advanced level. Wind power gear transmission equipment products are widely used in onshore wind power and offshore wind power, including large-megawatt wind power gear transmission equipment products such as 11MW, 12MW and 13.6MW, have been supplied to domestic and foreign customers on a large scale. Meanwhile, the Group has also actively expanded its drive technology and developed an “integrated, intelligent and digital” driving product system. Through close technical cooperation with customers at home and abroad and global support for the research and development (“R&D”) system, the Group continues to innovate and develop smart interconnected products to provide customers with smart solutions of gear transmission products.

During the Year, the Group continued to maintain a robust customer portfolio. Customers of wind power gear transmission equipment products include both major domestic wind turbine manufacturers in China as well as international renowned wind turbine manufacturers, such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Suzlon and Doosan. With quality products and good services, the Group has received a wide range of recognition and trust from customers at home and abroad. Through its subsidiaries in the United States (the “U.S.”), Germany, Singapore, Canada and India, in line with its sustainable development strategy, the Group strives to establish closer communication and connections with potential customers, while seizing opportunities in emerging markets, and actively cultivating new products, new business forms, and new models, to provide diversified and all-round services to global customers.

In recent years, the Group has always adhered to the green development strategy in terms of its business in industrial gear transmission equipment segment, adhering to energy conservation, environmental protection and low carbon concepts, and consolidated its advantages in industrial heavy equipment market. At the same time, it has also actively developed and expanded the new markets and applications in new industries for industrial gear transmission equipment such as standard gear boxes and industrial planetary gear boxes. The Group's industrial gear business customers include some well-known international companies, such as Heidelberg Cement and Primetals Technologies. Through strengthened R&D and innovation and on the basis of standardized, modularized and serialized products with international competitiveness, the Group has also been actively building an integrated, intelligent and digital product system, and empowering products with greater added value and longer life cycles. Furthermore, 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 and reduce energy consumption without increasing capital expenditure, and satisfying their diversified and differentiated needs, thereby maintaining the Group's position as a major supplier in the industrial gear transmission equipment product market.



CHAIRMAN'S STATEMENT

The Group's rail transit gear transmission equipment is widely used in rail transit fields such as high-speed railways, subway, urban light rails and trams, and has established long-term cooperative relationships with many well-known domestic and foreign enterprises in the industry, such as CRRC and Alstom. The Group's rail transit gearbox products have obtained certification of the international railway industry quality control system ISO/TS 22163 (International Railway Industry Standard) and railway product CRCC certification, laying a solid foundation for further expansion into the international rail transit market. At present, our products have been successfully used in rail transit transmission equipment in many Chinese cities such as Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong and Taipei, as well as successfully used in rail transit transmission equipment in many countries and regions, such as Singapore, Brazil, the Netherlands, India, Mexico, Tunisia, Australia, Canada, France, Spain, Romania, Tanzania and Egypt. The Group's rail transit gear transmission equipment business obtained the "Silver" Certificate for IRIS System in 2022, and it was renewed in 2023, further strengthening and reflecting the Group's influence in the rail transit industry. This has promoted the sound and sustainable development of the Group's rail transit gear transmission equipment business.

At present, green development has become one of the important new driving forces for economic recovery and one of the biggest consensuses on global development. Many countries regard the development of green industries as an important measure to promote economic structural adjustment, highlighting the green concept and connotations. Driven by the global trend of green development and multiple policies, the renewable energy industry is expected to usher in leap-forward development opportunities. Although the current wind power industry is also facing potential risks such as the adverse impact of price wars and the accelerated iteration of large-scale wind turbines, there are both opportunities and challenges, the Group will further promote the innovation and development of high-end equipment manufacturing business.

CHAIRMAN'S STATEMENT

Without cumulation of small steps, it is not possible to reach a thousand miles. In the future, the Group will continue to focus on the four core competencies of “innovative thinking, zero-defect quality, professional services, and customer proximity” and adhere to the corporate spirit of “continuous improvement and diligent pursuit of excellence”. With leading advantages in, among others, manufacturing, technology, management, market and brand, we will seize industry development opportunities, optimize product performance, enrich product systems, improve the quality of intelligent services, and open up a new window for the Group’s high-quality and intelligence development. Meanwhile, the Group will also keep abreast of market trends, tap market potential, consolidate its market position, and further enhance the value of the Company while developing steadily, thereby generating returns for our investors and contributing to the society. With the progress in carbon peak and carbon neutrality goals, the green industry has become a new force in promoting economic growth, and green development has become the consensus of the international community. As a leading supplier in the field of gear transmission equipment, the Group continues to implement driving development with innovations and the concept of “green” industrial chain development, and to follow the path of green and low-carbon development, stimulate green momentum, accelerate the creation of a green and low-carbon supply chain, promote the green and low-carbon transformation of energy, for supporting the actualization of building a beautiful China and the “two-carbon” goals.

Finally, on behalf of all Directors (“**Directors**”) of the Board of Directors (“**Board**”) of the Company, I would like to express sincere gratitude to all shareholders for their support to the Company and to all colleagues for their hard work and dedication over the past year.

Hu Jichun
Chairman

28 March 2024

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the research, design, development, manufacture and sales of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications and trade of goods. During the Year, the Group recorded sales revenue of approximately RMB24,077,148,000 (2022: RMB21,079,654,000), representing an increase of 14.2% as compared with 2022, and the gross profit margin was approximately 14.1% (2022: 15.5%). Profit attributable to owners of the Company was approximately RMB95,517,000 (2022: RMB101,599,000), representing a decrease of 6.0% as compared with 2022. Basic earnings per share was RMB0.058 (2022: RMB0.062), representing a decrease of 6.5% as compared with 2022.

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, and by leveraging its strong research, design and development capabilities, our technology has reached an internationally advanced technical level. The wind gear transmission equipment products of the Group are widely applied in onshore and offshore wind power. The large-megawatt wind gear transmission equipment products, such as 11MW, 12MW and 13.6MW, have been provided to domestic and overseas customers in bulk. During the Year, the Group maintained a strong customer portfolio. Customers of our wind gear transmission equipment products include major wind turbine manufacturers in the People's Republic of China (the "PRC"), as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Suzlon and Doosan.

The wind gear transmission equipment is a major product that has been developed by the Group. During the Year, sales revenue of wind gear transmission equipment business increased by 12.2% to approximately RMB14,890,141,000 as compared with last year (2022: RMB13,274,367,000).

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 widely used by customers in industries such as metallurgy, construction materials, rubber and plastic, petrochemical, aerospace, mining, ports and engineering machinery.

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

During the Year, the industrial gear transmission equipment business generated sales revenue of approximately RMB1,879,228,000 (2022: RMB2,046,483,000) for the Group, representing a decrease of 8.2% as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

3. Rail transportation gear transmission equipment

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

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

During the Year, the rail transportation gear transmission equipment business generated sales revenue of approximately RMB270,152,000 (2022: RMB378,880,000) for the Group, representing a decrease of 28.7% as compared with last year.

4. Trading business

Explore and expand trading business through resource integration

The trading business of the Group mainly comprises trading business of bulk commodities and trading business in the steel industrial chain. The bulk commodity trading business mainly involves the procurement and wholesale of refined oil and electrolytic copper. The trading business in the steel industrial chain mainly involves, among others, the procurement and wholesale of raw coal and coke, being the upstream raw materials of steel, and the procurement and wholesale of steel.

During the Year, the trading business generated sales revenue of approximately RMB7,021,918,000 (2022: RMB5,346,027,000) for the Group, representing an increase of 31.3% as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

LOCAL AND EXPORT SALES

During the Year, the Group maintained its position as the leading supplier of the mechanical transmission equipment in the PRC. During the Year, the overseas sales amounted to approximately RMB2,248,156,000 (2022: RMB1,790,199,000), representing an increase of 25.6% as compared with last year. Overseas sales accounted for 9.3% (2022: 8.5%) of the total sales of the Group, representing an increase of 0.8 percentage points as compared with last year. At present, the overseas customers of the Group are mainly based in U.S. and other countries and regions such as Europe, India and Brazil.

RECOGNITION AND CERTIFICATION OF THE GROUP

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 major technology and quality awards, certificates, honours and titles at national, provincial and municipal level for over 100 times over the years, such as national, provincial and municipal technology advancement awards, outstanding new products awards, Jiangsu Governor Quality Award, Nanjing Mayor Quality Award, certification for new products, certification for high and new tech products and certification of high and new tech enterprise, Jiangsu Quality and Credit Graded AAA enterprise, "Jiangsu Boutique" and "Jiangsu Green Factory".

As at 31 December 2023, the Group was granted a total of 872 national-authorized patents and have submitted 437 patent applications pending for approval. The Group was the first producer to adopt ISO 1328 and ISO 6336 international standards in the PRC. The Group was also 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. The Group has obtained ISO 9001:2015 quality management system certificate, ISO 14001:2015 environmental management system certificate, ISO 45001:2018 occupational health and safety management system certificate, ISO 10012:2003 measurement management system certificate and ISO 50001:2018 energy management system certificate. In addition, the Group has also obtained the GB/T 23001-2017 integration of informationization and industrialization management system certificate. Its testing laboratory has obtained the ISO/IEC 17025:2017 CNAS laboratory certificate. Several special processes of heat treatment have obtained the TPG special process certificate. During the Reporting Period, the Group's GearSight passed the global software domain CMMI Level 3 assessment and was awarded the CMMI Level 3 certificate. The passing of the CMMI Level 3 certification means that the Group is able to provide customers with more mature GearSight intelligent product industry solutions and higher-quality product services, and at the same time, it also lays a solid technological foundation for the continuous innovation and upgrading of GearSight products. Nanjing High Speed Gear Manufacturing Co., Ltd. (南京高速齒輪製造有限公司) ("Nanjing High Speed"), a subsidiary of the Group, has also become a APQP₄ Wind Company Member.

MANAGEMENT DISCUSSION AND ANALYSIS

Wind gear transmission equipment products of the Group have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), China Quality Certification Centre (CQC), Technische ÜberwachungsVerein (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 (MA), ATEX, CUTR, GOST 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, CRCC Certification for Railway Products and the IRIS "Silver" Certificate.

PROSPECTS

In 2023, the global economy had experienced undercurrents with many external uncertainties and intensifying financial risks. Despite the pressures and challenges, the PRC government adopted a series of proactive macroeconomic control policies to promote the overall recovery of China's economic performance, maintaining a high growth rate. According to statistics by the National Bureau of Statistics, the gross domestic product (GDP) of China for the year of 2023 was RMB1,260.6 billion, increasing by 5.2% year-on-year. The growth rate accelerated 2.2 percentage points as compared with 2022. As residents' income increased, domestic demand gradually strengthened and new drivers grown and developed, the quality of China's economic development continued to improve with positive fundamentals in long term.

Under the introduction of the carbon peaking and carbon neutral targets, the transformation and upgrading of China's energy consumption structure have been accelerating. The energy industry has entered a stage of high-quality development, and the development of green and low-carbon energy has become the mainstream. As a renewable and clean energy, wind power has become an important part of energy development planning. The wind power industry operates on land and sea and has entered a market-driven era. Following the concepts of innovation and zero-defect quality, the Group continues to increase investment in R&D to provide the global market with a full range of wind power gear transmission products covering different megawatt levels and to provide a complete service network.

MANAGEMENT DISCUSSION AND ANALYSIS

Over the years, under the strong guidance of policies, China's wind power industry has achieved high-quality development. Currently, it has achieved localization and started affordable and rapid development. Since the wind power industry entered the era of parity, the pressure for rapid cost reduction has been transmitted to the subdivided links of the industry chain. The competition of wind power manufacturing field has become more intense. The bidding prices of wind turbine products have continued to decline. As a result, the profit margins of wind turbine products have been continuously compressed. Since wind power gear transmission equipment is one of the necessary components of wind turbines, the price of wind turbine products continued to remain low, which inevitably reduced the prices of the Group's wind power gear transmission equipment. Considering the competitive landscape of wind turbine parts, the current price competition and intensified industry involution in the wind turbine manufacturing industry, there were severe challenges to the development of the Group's wind power gear transmission equipment business. In addition, in recent years, the development trend of large-scale wind turbines has accelerated the iteration of wind power gearbox models, which has put forward higher requirements for the Group's R&D and innovation capabilities. Meanwhile, in order to satisfy the production requirement of large-megawatt wind gearboxes, the Group will be required to increase investment in upgrading and transforming ancillary equipment and test platforms. With the increasing complexity of the operating environment of wind gearboxes and customers having more stringent requirements on the quality and performance of products, the Group is put under potential pressure on the costs of after-sale maintenance.

The Group continues to adhere to its green development strategy in terms of its business in industrial gear transmission equipment segment. By adhering to a high-quality development with green ecology, the Group has continued to promote and improve the "standardized, modularized and serialized" product system, conduct in-depth research on new transmission technology, and lead the development direction of industrial gear transmission equipment products to "four highs and three lows" (i.e., high power, high speed, high load and high precision; low power consumption, low vibration and low noise). Besides, the Group has also been actively developing driving technology and has developed an "integrated, intelligent and digital" driving product system. Through a close technical cooperation with domestic and overseas customers, relying on the support of the Company's global R&D system, the innovation and development of intelligent inter-connected products, we further promote our international layout and provide customers intelligent solutions for gear transmission products. Under the current development trend of green economy, while taking into account high quality and intelligent development, it is of far-reaching significance to develop and innovate products that are more environmentally friendly, which also drives the need of the Group to continuously increase investment in R&D, accelerate the development of new products, and strive to build high-end equipment for the manufacturing of products to enhance brand awareness and influence, so as to maintain the Group's position as a major supplier in the industrial gear transmission equipment market.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's rail transportation gear transmission equipment is widely used in various 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, such as CRRC and Alstom. The Group has obtained ISO/TS 22163 Certificate for the Quality Management System and Railway Product CRCC Certificate 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. Adhering to "the concept and operation of zero defects", the Group is committed to providing global customers with safe, reliable and quiet rail transit gear transmission equipment products as well as a full range of rail transit gear transmission solutions. During the Reporting Period, Nanjing High Accurate Rail Transportation Equipment Co., Ltd.* (南京高精轨道交通設備有限公司), a subsidiary of the Company, was granted an order of 1,320 units of rail gearbox from Cairo Project, Egypt. It has passed the customer's first inspection successfully. The Company currently has more than 50,000 units of rail gear transmission equipment in rail transportation across several countries and regions including China, North America, South America, Europe, Southeast Asia and South Africa, which are well-recognized by customers. The Group's rail transportation gear transmission equipment business has completed the IRIS system "Silver" upgrade project and officially obtained the IRIS "Silver" Certificate in 2022; during the Reporting Period, the Group has continued to pass the review for the certificate of the system and has again obtained the "Silver" Certificate. which greatly enhanced the Group's brand integrity and influence in the rail transportation industry, promoting the robust development of the Group's rail transportation gear transmission equipment business.

The Group has been engaged in the commodity trading business and steel industry chain trading business. The commodity trading business mainly involves the procurement and sale of bulk refined oil products and copper cathode; the steel industry chain trading business mainly involves the procurement and sale of raw coal, the upstream raw materials for steel, coke and bulk steel. With the development of the trading business of the Group, there is a necessity to strengthen risk prevention against market uncertainties.

In 2024, the Group will adhere to the four core competitive strengths of "innovative thinking, zero-defect quality, professional services, and customer proximity", and to provide customers with better product and more comprehensive services. Meanwhile, the Group will continue to keep abreast of product market trends, improve product quality and economies of scale while enhancing market penetration, consolidating our market share, promoting the Group's profitability to a new level and fully realizing the appreciation of the corporate value. Furthermore, with the introduction of the carbon peaking and carbon neutral targets, "green" has become the inevitable trend and beautiful background for the quality development of Chinese and global enterprises. Against this backdrop, the Group, as a leading supplier in the transmission equipment sector, will also proactively realize the concept of green development, continue to drive green development of its business and industry chain through innovation with measures to promote the R&D of green and low-carbon products, leading the technological development trend of the industry and facilitating the green development of China to a next level to help achieve the "dual carbon" targets in an early manner.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

REVENUE

During the Year, sales revenue of the Group increased by 14.2% from approximately RMB21,079,654,000 in 2022 to approximately RMB24,077,148,000, this was mainly due to the increase in sales of wind gear transmission equipment and trading business.

	Revenue		
	Year ended 31 December		
	2023	2022	Change
	RMB'000	RMB'000	
Wind gear transmission equipment	14,890,141	13,274,367	12.2%
Industrial gear transmission equipment	1,879,228	2,046,483	-8.2%
Rail transportation gear transmission equipment	270,152	378,880	-28.7%
Trading business	7,021,918	5,346,027	31.3%
Other products	15,709	33,897	-53.7%
Total	24,077,148	21,079,654	14.2%

During the Year, sales revenue from wind gear transmission equipment was approximately RMB14,890,141,000 (2022: RMB13,274,367,000), representing an increase of 12.2% as compared with last year; sales revenue from industrial gear transmission equipment was approximately RMB1,879,228,000 (2022: RMB2,046,483,000), representing a decrease of 8.2% as compared with last year; sales revenue from rail transportation gear transmission equipment was approximately RMB270,152,000 (2022: RMB378,880,000), representing a decrease of 28.7% as compared with last year; and sales revenue from trading business was approximately RMB7,021,918,000 (2022: RMB5,346,027,000), representing an increase of 31.3% as compared with last year.

GROSS PROFIT MARGIN AND GROSS PROFIT

During the Year, the Group's consolidated gross profit margin was approximately 14.1% (2022: 15.5%), representing a decrease of 1.4 percentage points as compared with last year. Consolidated gross profit for the Year was approximately RMB3,394,785,000 (2022: RMB3,263,232,000), representing an increase of 4.0% as compared with last year. During the Year, the increase in consolidated gross profit was mainly due to increase in sales revenue, the decrease in gross profit margin was mainly due to the decreased sales price and the increased costs of wind gear transmission equipment.

OTHER INCOME

During the Year, the Group's other income was approximately RMB211,712,000 (2022: RMB210,242,000), representing an increase of 0.7% as compared with last year. Other income mainly comprised of income from sales of scraps and materials and government grants.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER GAINS – NET

During the Year, the Group's other net gains were approximately RMB57,499,000 (2022: RMB120,851,000), which mainly included foreign exchange gains, fair value gains on financial assets at FVPL, net of loss on early redemption of other financial assets at amortised cost.

SELLING AND DISTRIBUTION EXPENSES

During the Year, the Group's selling and distribution expenses were approximately RMB532,167,000 (2022: RMB479,184,000), representing an increase of 11.1% as compared with last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and business expenses. The increase in selling and distribution expenses was mainly due to the increase in product packaging expenses and transportation expenses. During the Year, selling and distribution expenses represented 2.2% of sales revenue (2022: 2.3%), representing a decrease of 0.1 percentage points as compared with last year.

ADMINISTRATIVE EXPENSES

During the Year, the Group's administrative expenses were approximately RMB561,429,000 (2022: RMB557,794,000), representing an increase of 0.7% as compared with last year. The increase in the administrative expenses was mainly due to the increase in staff costs, property tax and land use tax. During the Year, administrative expenses accounted for 2.3% of sales revenue (2022: 2.6%), representing a decrease of 0.3 percentage points as compared with last year.

RESEARCH AND DEVELOPMENT COSTS

During the Year, the Group's research and development costs were approximately RMB904,473,000 (2022: RMB744,816,000), representing an increase of 21.4% as compared with last year. During the Year, research and development costs accounted for 3.8% of sales revenue (2022: 3.5%), representing an increase of 0.3 percentage points as compared with last year.

NET IMPAIRMENT LOSSES RECOGNISED ON FINANCIAL ASSETS

During the Year, the net impairment losses recognised on financial assets of the Group were approximately RMB295,106,000 (2022: RMB212,812,000), representing an increase of approximately RMB82,294,000 as compared with last year. The increase in impairment losses were mainly due to bad debt provision individually provided for other receivables of specific debtors based on evaluation of credit risk.

FINANCE COSTS

During the Year, the Group's finance costs were approximately RMB763,559,000 (2022: RMB588,814,000), representing an increase of 29.7% as compared with last year, which was mainly due to an increase in bank borrowings.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2023, the equity attributable to owners of the Company amounted to approximately RMB10,273,310,000 (31 December 2022: RMB10,475,951,000), representing a decrease of 1.9% as compared with the beginning of the year. The Group had total assets of approximately RMB41,700,395,000 (31 December 2022: RMB41,634,453,000), representing an increase of 0.2% as compared with the beginning of the year. Total current assets were approximately RMB29,156,858,000 (31 December 2022: RMB30,852,241,000), representing a decrease of 5.5% as compared with the beginning of the year. Total non-current assets were approximately RMB12,543,537,000 (31 December 2022: RMB10,782,212,000), representing an increase of 16.3% as compared with the beginning of the year, mainly due to an increase in property, plant and equipment.

As at 31 December 2023, total liabilities of the Group were approximately RMB27,788,171,000 (31 December 2022: RMB28,039,883,000), representing a decrease of approximately RMB251,712,000 or 0.9% as compared with the beginning of the year. Total current liabilities were approximately RMB21,603,663,000 (31 December 2022: RMB23,321,323,000), representing a decrease of 7.4% as compared with the beginning of the year, mainly due to a decrease in bills payables. Total non-current liabilities were approximately RMB6,184,508,000 (31 December 2022: RMB4,718,560,000), representing an increase of 31.1% as compared with the beginning of the year, mainly due to an increase in bank borrowings.

As at 31 December 2023, the net current assets of the Group were approximately RMB7,553,195,000 (31 December 2022: RMB7,530,918,000), representing an increase of approximately RMB22,277,000 or 0.3% as compared with the beginning of the year.

As at 31 December 2023, total cash and bank balances of the Group were approximately RMB9,190,289,000 (31 December 2022: RMB9,332,115,000), representing a decrease of approximately RMB141,826,000 or 1.5% as compared with the beginning of the year. Total cash and bank balances included pledged bank deposits of RMB3,562,398,000 (31 December 2022: RMB4,897,224,000) and the structured bank deposits included in the financial assets at fair value through profit or loss amounting to nil (31 December 2022: RMB51,374,000).

As at 31 December 2023, the Group had total borrowings of approximately RMB9,494,585,000 (31 December 2022: RMB7,842,584,000), representing an increase of RMB1,652,001,000 or 21.1% as compared with the beginning of the year, of which, borrowings with 1-year term amounted to RMB5,036,621,000 (31 December 2022: RMB4,657,412,000), accounting for approximately 53.0% of the total borrowings (31 December 2022: 59.4%). The interest rates of the Group's borrowings during the year ranged from 3.00% to 7.61% per annum.

Taking into account the capital generated internally within the Group, the banking credit available to the Group, and the net current assets of approximately RMB7,553,195,000 as at 31 December 2023, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

GEARING RATIO

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) decreased from 67.3% as at 31 December 2022 to 66.6% as at 31 December 2023.

MANAGEMENT DISCUSSION AND ANALYSIS

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 borrowings were primarily denominated in Renminbi.

As at 31 December 2023, the Group's borrowings with fixed interest rate accounted for 46.7% of total borrowings.

PLEDGE OF ASSETS

Save as disclosed in note 41 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2023.

CONTINGENT LIABILITIES

Save as disclosed in note 39 to the consolidated financial statements, as at 31 December 2023, the Directors were not aware of any other material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2023, the Group had capital commitments contracted for but not provided for in the consolidated financial statements in respect of the acquisition of property, plant and equipment of approximately RMB1,853,478,000 (31 December 2022: RMB3,117,804,000). Details of which are set out in note 40 to the consolidated financial statements.

FOREIGN EXCHANGE RISK

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

During the Year, the net gains of foreign exchange (included in "Other gains – net") recorded by the Group was approximately RMB77,800,000 (2022: RMB112,656,000), which was mainly due to the gains from export business denominated in U.S. dollars as a result of fluctuations in the exchange rate of Renminbi against U.S. dollars during the Year.

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

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST RATE RISK

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

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE YEAR

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

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

During the Year, 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.

EVENT AFTER THE REPORTING PERIOD

There are no important events occurred subsequent to 31 December 2023.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of Directors and senior management as at 31 December 2023 are listed as follows:

EXECUTIVE DIRECTORS

Mr. Hu Jichun, aged 44, is the Chairman of the Board, an executive Director, the Chief Executive Officer and the chairman of the Nomination Committee of the Company. He is a holder of postgraduate degree. Mr. Hu graduated from Shanghai University in Control Theory and Control Engineering and obtained a master's degree in Engineering in 2004. Mr. Hu served as the vice general manager of Nanjing E-crystal Energy Co., Ltd. from January 2012 to November 2018 and has been serving as an executive Director of the Company since June 2015. Also, Mr. Hu served as a director of Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("**Nanjing Drive**") from November 2016 to September 2020 and the chairman and the general manager of Nanjing Drive from December 2016 to May 2019. He served as the president of Nanjing Drive from January 2017 to September 2020. Mr. Hu has been a director and the chairman of Nanjing High Speed since August 2017. Mr. Hu also serves as a director of certain subsidiaries of the Group, including major subsidiaries such as, Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("**Nanjing High Accurate**"), NGC Transmission Equipment (America), Inc., China Transmission Holdings Limited and High Speed Holdings Limited. Mr. Hu is a council member of China General Machine Components Industry Association (中國機械通用零部件工業協會), the vice chairman of Gear and Electric Drive Association (齒輪與電驅動分會) of China General Machine Components Industry Association (中國機械通用零部件工業協會) and executive member of the national council of New Sushang (《新蘇商》). During the Reporting Period, Mr. Hu was accredited as the "Excellent Entrepreneur of Jiangsu Province"(江蘇省優秀企業家) and the "Jiangsu Economic Think Tank Enterprise Expert" (江蘇經濟智庫企業專家), and previously, Mr. Hu has also received various honours and titles, such as the "2020 Outstanding Entrepreneur of Nanjing New Industrial Industry" (二零二零年度南京新型工業行業協會優秀企業家), the "2021 Outstanding Entrepreneur of Nanjing New Industrial Industry" (二零二一年度南京新型工業行業協會優秀企業家), the "2021 Award for Outstanding Contributions of Sushang Industrial Powers" (二零二一年度蘇商實業強國突出貢獻獎), "Economic Figure of the Year of Global Sushang" (天下蘇商年度經濟人物), "Top 50 Excellent Entrepreneurs in Wind Power Industry of China" (中國風電產業50強優秀企業家) and the "Anti-Epidemic Excellence of Sushang" (戰「疫」最美蘇商). Mr. Hu is the son of Mr. Hu Yueming, an executive Director and an authorised representative of the Company under Rule 3.05 of the Listing Rules (the "**Authorised Representative**").

Mr. Hu Yueming, aged 74, is an executive Director of the Company and an Authorised Representative. Mr. Hu is a university graduate and graduated from Fudan University majoring in laser technology in 1977. Mr. Hu is a professor engineer. He has more than 40 years of experience in the management of machinery and industrial enterprises and served as the head of various state-owned enterprises such as Nanjing Engineering Equipment Factory (南京工藝裝備廠) and general manager of various foreign invested enterprises including Nanjing Atlas Copco Construction Machinery Ltd. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory (南京高速齒輪箱廠). He served as a director of Nanjing Drive from March 2007 to September 2020. From March 2007 to December 2016 and from May 2019 to September 2020, he served as the chairman and the general manager of Nanjing Drive. Mr. Hu is also a director in certain subsidiaries of the Group. Mr. Hu is an expert on mechanical transmission equipment technology and business management. He is also the vice president of the China New Energy Generation Network (中國新能源發電網), and the chairman of Nanjing Renewable Energy Association (南京可再生能源協會). During the Reporting Period, Mr. Hu was elected as "a member of the Jiangsu Provincial People's Congress", and previously, he also received various honours and titles, such as "The 4th Outstanding Entrepreneur of the Machinery Industry" (第四屆全國機械工業明星企業家), "National Labor Model" (全國勞動模範) and "the Leader of China's Gear Industry" (中國齒輪行業產業領軍人物). Mr. Hu Yueming is the father of Mr. Hu Jichun, the Chairman of the Board, an executive Director, the Chief Executive Officer and the chairman of the Nomination Committee of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Yongdao, aged 61, is an executive Director and a member of the Remuneration Committee of the Company. Mr. Chen is a university graduate. He obtained a bachelor's degree from Jiangsu Institute of Technology majoring in metal material and heat treatment in 1983 and a master's degree from Nanjing University of Science and Technology majoring in engineering in 2007. He is a professor engineer. Mr. Chen successively served as the deputy head of the inspection and gauging section, head of the production allocation section of the factory and deputy general manager of Nanjing High Speed Gear Factory (南京高速齒輪箱廠). He has become a director and the deputy general manager of Nanjing Drive since March 2007. He has served as the vice president of Nanjing Drive since January 2017. Mr. Chen is also a director in certain subsidiaries of the Group. Mr. Chen is an expert on heat treatment of metal material and has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment and enterprise management for almost 40 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Zhou Zhijin, aged 51, is an executive Director of the Company. He graduated from Nanjing Industrial School in 1991. He joined Nanjing High Speed Gear Factory (南京高速齒輪箱廠) in August 1991 and was appointed as the vice director of personnel department in January 1999. He has served as the deputy director of human resource department of Nanjing High Accurate since September 2001 and the assistant to general manager and the office head of Nanjing High Speed since July 2003. He has served as the vice general manager of Nanjing High Speed since July 2006 and an executive Director of the Company since June 2015. Mr. Zhou served as a director of Nanjing Drive from November 2016 to September 2020 and the vice president of Nanjing Drive from January 2017 to September 2020. Mr. Zhou has served as a director of Nanjing High Speed since August 2017. Mr. Zhou is also a director in certain subsidiaries of the Group.

Ms. Zheng Qing, aged 56, is an executive Director of the Company. She is a fellow member of the Association of Chartered Certified Accountants. She joined the Company as an executive Director on 1 December 2016. She graduated from Nanjing Audit University in 1989. She obtained a bachelor's (Honours) degree in Applied Accounting from Oxford Brookes University in 2005 and further obtained a master's degree in Business Administration from the Chinese University of Hong Kong in 2012.

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

Since 21 January 2020, Ms. Zheng has been an independent non-executive director of GHW International (stock code: 9933).

From June 2015 to December 2022, Ms. Zheng was the financial controller of Nanjing Region of Fullshare Holdings Limited ("Fullshare Holdings", stock code: 607), and was deployed as the financial adviser of Fullshare Holdings since January 2023.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Gu Xiaobin, aged 55, is an executive Director of the Company. He is a holder of university degree. He graduated from Beihang University majoring in material science and engineering in July 1991. He joined AVIC Chengdu Engine (Group) in September 1991, and was engaged in technology, sales and foreign trade, and served as an assistant to the head of the foreign trade division. He joined General Electric (China) Co., Ltd. in December 1996 and held various positions, including project manager of purchase department in China of energy industry group, quality engineer, Six Sigma Master Black Belt, purchasing general manager in China of energy group, and purchasing general manager in Asia of renewable energy group, etc. Mr. Gu joined the Group in October 2017, and served as a director and the chief operating officer of Nanjing Drive from then to September 2020. Mr. Gu has served as the general manager of Nanjing High Speed since October 2017, and a director of Nanjing High Speed since March 2021. Mr. Gu served as the general manager of wind power business department and overseas business department since October 2017. Mr. Gu has been an executive Director of the Company since May 2019. Mr. Gu is also a director in certain subsidiaries of the Group. Mr. Gu served as the vice chairman of Jiangsu Province Renewable Energy Industry Association, the vice chairman of Nanjing New Industrial Industry Association and the vice chairman of Nanjing Association for The Promotion of Intelligent Manufacturing Equipment Industry. During the Reporting Period, Mr. Gu received the honours of, among others, “Labour Model of Huai’an” (淮安市勞動模範) and “2023 Economic Figure of the Year of Huai’an” (二零二三淮安年度經濟人物), and previously, Mr. Gu also received various honours and titles, such as “the 9th Outstanding Entrepreneur in China Machinery Industry” (第九屆中國機械工業優秀企業家), “2021 Economic Figures of Huai’an” (二零二一淮安年度經濟人物), and “2022 Economic Figures of Huai’an” (二零二二淮安年度經濟人物).

Mr. Fang Jian, aged 57, is an executive Director of the Company. He graduated from Jinling Institute of Technology (金陵科技學院) in July 1987 where he obtained the professional diploma in road and bridges. Mr. Fang has almost 20 years of management experience in the green building and energy-saving building industry in the People’s Republic of China. Mr. Fang served as a vice president in Nanjing Jiangong Industry Group Co., Ltd.* (南京建工產業集團有限公司) (“Nanjing Jiangong”) from July 2006 to December 2009 and was appointed as a director of Nanjing Jiangong from 2011 to December 2014. He was appointed as the chairman, a director and the legal representative of Jiangsu Province Green Building Technology Research Centre Co., Ltd.* (江蘇省綠色建築工程技術研究中心有限公司) from September 2008 to May 2017 and has been appointed as a director since May 2017. He was also appointed as the chairman, a director, the legal representative and the general manager of Jiangsu Jinhe Construction Group Co., Ltd.* (江蘇錦禾建設集團有限公司) from December 2014 to July 2018. He was appointed as the chairman, a director and the legal representative of Jiangsu Ansen Kangju Enterprise Management Co., Ltd.* (江蘇安森康居企業管理有限公司) from June 2015 to October 2018. He has also been appointed as the chairman, a director and the legal representative of Nanjing Fasike Energy Technology Development Co., Ltd.* (南京法斯克能源科技發展有限公司) from June 2015 to January 2021. Mr. Fang was an executive director of Fullshare Holdings from December 2014 to June 2016. Mr. Fang has joined the Group since April 2020 and has been appointed as a director and the legal representative of Nanjing Shengzhuang Supply Chain Co., Ltd.* (南京市盛裝供應鏈有限公司) and, from April 2020 to May 2023, as an executive director and legal representative of director and the legal representative of Nanjing Handa Import & Export Trade Co., Ltd.* (南京翰達進出口貿易有限公司), both being wholly-owned subsidiaries of the Company. Mr. Fang has served as an executive Director of the Company since August 2020. He is a director and the chairman of Nanjing Drive since September 2020 and the general manager of Nanjing Drive since October 2020. Mr. Fang is also a director of certain subsidiaries of the Group.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xihe, aged 65, is an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 8 June 2007. He is a Doctor in accountancy. He graduated from the Central University of Finance and Economics (中央財經大學) majoring in accountancy in June 1990. He obtained professional accounting qualification recognized in the PRC in July 1999. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association and a standing member of the Jiangsu Accounting Association.

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

Mr. Jiang was appointed as an independent director of Hongbaoli Group Co., Ltd. (stock code: 002165, a company listed on the Shenzhen Stock Exchange) from November 2015 to August 2022. From September 2019 to June 2021, he was appointed as an independent director of Jiangsu Lanfeng Bio-Chemical Co., Ltd. (stock code: 002513, a company listed on the Shenzhen Stock Exchange). From May 2018 to May 2023, he was an independent director of Anhui Hualing Kitchen Equipment Co., Ltd. (stock code: 430582, a company listed on the New Third Board of the Shenzhen Stock Exchange).

Currently, Mr. Jiang is an independent director of Hongda Xingye Co., Ltd. (stock code: 002002, a company listed on the Shenzhen Stock Exchange) and Baowu Magnesium Technology Co., Ltd. (寶武鎂業科技股份有限公司)(formerly Nanjing Yunhai Special Metals Co., Ltd. (stock code: 002182, a company listed on the Shenzhen Stock Exchange)).

Ms. Jiang Jianhua, aged 58, is an independent non-executive Director of the Company and she joined the Company as an independent non-executive Director on 31 December 2012. She is a holder of Ph. D. degree in Management. Ms. Jiang graduated from Shanghai University of Finance and Economics with a bachelor's degree, majoring in international finance, in July 1986. From July 1996 to June 1999, she studied at Tianjin University of Finance and Economics and received a master's degree of management. She studied and obtained a doctorate degree of management from Nanjing Agricultural University from September 2006 to December 2008.

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Jiang was appointed as an independent director of Jiangsu Holly Corporation (stock code: 600128, a company listed on the Shanghai Stock Exchange) from February 2016 to October 2021. From May 2016 to May 2022, she was appointed as an independent director of Jiangsu Guoxin Corp. Ltd. (stock code: 002608, a company listed on the Shenzhen Stock Exchange). From December 2016 to March 2023, she was appointed as an independent director of Nanjing Baose Co., Ltd. (stock code: 300402, a company listed on the Shenzhen Stock Exchange). From December 2020 to May 2023, she was appointed as an independent director of Changzhou New District Jinkang Precision Mechanism Co., Ltd. (stock code: 831978, a company listed on New Third Board of the Shenzhen Stock Exchange).

Currently, Ms. Jiang serves as an independent director of Jiangsu Topfly New Materials Co., Ltd. (江蘇翔騰新材料股份有限公司) (stock code: 001373, a company listed on the Shenzhen Stock Exchange).

Dr. Chan Yau Ching, Bob, aged 61, is a non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company and joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a doctorate degree in Finance. Dr. Chan graduated from the Chinese University of Hong Kong and obtained a bachelor's degree in Business Administration in 1984. Dr. Chan further obtained a master's degree in Business Administration from the University of Wisconsin-Madison, the U.S. in 1986, and a doctorate degree in Finance from Purdue University, the U.S. in 1994. Dr. Chan is a member of the Chartered Financial Analyst Institution and the Hong Kong Society of Financial Analysts. Since April 2009, Dr. Chan has been a licensed representative/responsible officer engaging in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

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

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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

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

From December 2018 to November 2020, Dr. Chan was appointed as an independent director of Hangzhou Huaxing Chuangye Communication Technology Co., Ltd. (stock code: 300025, a company listed on the Shenzhen Stock Exchange).

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

Mr. Nathan Yu Li, aged 52, is an independent non-executive Director, a member of the Audit Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a master's degree in Science and a master's degree in Business Administration.

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

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

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

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

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 61, is the chief financial officer and the company secretary of the Company and an Authorised Representative. He graduated from York University with a bachelor of arts degree majoring in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is a qualified accountant, an associate member of the Australian Society of Certified Practising Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Company in June 2006 and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lui is also a director of certain subsidiaries of the Group.

Ms. Zhou Jingjia, aged 60, is the financial controller of the Company. She graduated from Suzhou University majoring in accounting and is a member of the Chinese Institute of Certified Public Accountants and a qualified accountant. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. In 1994, Ms. Zhou joined Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. In January 2006, Ms. Zhou was transferred from Nanjing Atlas Copco Construction Machinery Ltd. to Atlas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the regional manager of certain production companies of the Atlas Copco Group in China and was responsible for overseeing the accounting departments. Ms. Zhou joined the Group in July 2006. She became a director of Nanjing Drive from March 2007 to September 2020. Ms. Zhou served as the vice president of Nanjing Drive from January 2017 to September 2020. Ms. Zhou has served as a director of Nanjing High Speed since December 2007. Ms. Zhou is also a director of certain subsidiaries of the Group.

DIRECTORS' REPORT

The Board is pleased to present the Directors' report (the "Directors' Report") and the audited consolidated financial statements of the Group for the year ended 31 December 2023.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the research, design, development, manufacture and sales of a broad range of mechanical transmission equipment that is used in wind power and a wide range of industrial appliances as well as trading of goods. Details of the principal activities of the major subsidiaries and associates of the Company are set out in notes 17 and 18 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), including an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 10 to 21 of this annual report. These discussions form a part of this Directors' Report.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group has complied with relevant PRC laws and regulations relating to environmental protection, and has operated and implemented the relevant requirements of ISO 14001 environment management system and ISO 50001 energy management system. The Company has strictly followed the laws and regulations requirements, such as Environmental Protection Law of the PRC and the Clean Production Promotion Law of the PRC, and has established environmental protection systems to ensure the implementation of various laws and regulations and the legal treatment and disposal of various types of emissions, and regularly submits environmental protection statistics and makes tax payment for environmental protection in a timely manner to relevant environmental protection authority. The Group conducts construction of new, reconstruction and expansion projects according to the latest national standards on environmental protection, engages design institute with Grade A qualification, experts in the industry, professors in universities, professional third-party service organizations, etc. to design the environmental protection plans, and conscientiously implements the concept of "three concurrents", namely concurrent design, concurrent construction and concurrent acceptance, to ensure the implementation of the principle of solving problems immediately is implemented when problems are encountered, without procrastination, repetition, waste, and reduce the unnecessary carbon emissions. In respect of previous projects, the Company also put considerable human and financial resources to conduct inspections and improvements. During the Year, the discharge and disposal of various types of waste of the Group met the requirements of relevant environmental protection authority. The Group always pays close attention to the development trend of environmental protection equipment at home and abroad, seeks for environmental protection equipment and facilities suitable for its own development, and continues to reduce the impact on the atmosphere, water and land.

DIRECTORS' REPORT

Nanjing High Speed has obtained the ISO 14001 environment management system certification every year since 2008, passed the Environmental-Friendly Enterprise Assessment organized by Nanjing Environmental Protection Agency at the end of 2012 and passed the Clean Production Enterprise Assessment at the end of 2013. The project of “level-specific control over land risks on key enterprises” was initiated in 2020 to ensure the control over land risks. In 2023, it was awarded the title of “Nanjing Environmental Protection Demonstration Enterprise” and passed the certification of “Jiangsu Green Factory” in the same year. Nanjing High Accurate has passed the ISO 14001 Environmental Management System certification every year since 2007, was awarded the title of “Jiangning Water-Saving Enterprise” in 2021 and was certified as “Jiangsu Green Factory” in 2023. The Group established the duties of environmental protection for staff at all levels, and established Emergency Plan for Sudden Environmental Incidents and regularly conducts drills. Through the regular inspection of each unit in charge of the production process and the irregular spot check in cooperation with the regulatory authorities, the Group is able to ensure the implementation of various environmental protection systems. At the same time, we will collect significant environmental incidents cases at home and aboard and organize all employees to learn and publicize to avoid the occurrence of the same incidents and to truly embed environmental protection into the Company’s production, operation and management. While our business grows, we will enhance the Company’s contribution to environmental protection.

The 2023 Environmental, Social and Governance Report (the “2023 ESG Report”) of the Company has been uploaded to the website of the Company (www.chste.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) together with this annual report. The 2023 ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide under Appendix C2 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”) to enable stakeholders to understand the Group’s sustainable development philosophy as well as its strategies and performance in the environmental, social and governance sectors.

KEY RELATIONSHIP WITH STAKEHOLDERS

The Company is committed to operating on a going concern basis while balancing the interests of various stakeholders, including employees, customers and suppliers of the Group.

We understand that employees are our important assets, we formulate and implement human resources policies that are conducive to the sustainable development of the Group. We actively cultivate, recruit and retain various talents to reduce the loss of key talents; at the same time, we eliminate unqualified employees in a timely manner to ensure that our employee team is more professional, more engaged and more efficient on the basis of maintaining good employee turnover. The Group has always maintained a low employee turnover rate as compared to the other companies in the manufacturing industry, which indirectly reflects the high sense of belonging of employees to the Group. We provide employees with fair, reasonable and competitive remuneration, determine the standards for their remuneration reasonably with reference to the local labor market and remuneration rates in the industry, formulate remuneration grade based on positions, set the specific amount of remuneration based on personal capacity, qualification and performance, and determine performance bonuses and year-end bonuses following the results of performance evaluation. Besides, we attach great importance to the development of employees, and establish a clear position system which provides different directions for vocational development. We have professional training

DIRECTORS' REPORT

and development courses for each career development direction, and provide them to outstanding employees. Meanwhile, the employees at senior level are responsible for supporting the career development of their juniors, conducting career development interviews and performance evaluations with their juniors at least once a year, guiding the direction and making suggestions, giving them corresponding development opportunities, and cultivating and reserving the reserve forces of the department.

We focus on sustainable development and are always committed to technological innovation and technological progress. We are a supplier with stable growth, reliable quality and perfect service in the global gear transmission equipment industry. We strive to improve product quality and service quality, improve customer satisfaction, and establish and maintain long-term and stable partnerships with customers. We have conducted annual customer satisfaction surveys for more than ten consecutive years, and invited customers to evaluate us in a comprehensive manner to promote our continuous improvement. The customer satisfaction of our gear transmission equipment business surpassed our annual target. We are committed to providing customers with high-quality products and professional services, and accelerating the strategic layout of global business operations. While focusing on the PRC market, we also establish a global after-sales service system. With the operation and maintenance centers and service agencies established in China, the United States, Germany, Singapore and India and other countries, we endeavor to provide global partners with a complete set of solutions and efficient support services to help customers to achieve high reliability and low operating costs of the transmission system, and follow up the diversified needs of customers, further enhance the brand influence and global service quality, and achieve the sustainable development of the Company around the globe. We also hold customer day activities and participate in international and domestic exhibitions to facilitate the publicity and promotion of new products, strengthen technical communication and business exchanges with customers, and are committed to producing better products and providing more professional services for customers, and develop long-term, stable, extensive and close customer relationships.

We firmly believe that a good supply chain is very important for the sustainable development of the corporate ecosystem. We conduct supplier classification management according to our supplier's business importance, years of supply and performance evaluation. Supplier performance is comprehensively assessed on a monthly/quarterly and annual basis with reference to factors such as quality, cost, delivery etc. to determine the level of qualified suppliers. We strive to maintain close communication with suppliers. Through mutual visits with suppliers, holding supplier conferences, participating in large-scale exhibitions and exchange meetings, we are able to explore future cooperation opportunities with representatives of suppliers from different countries or regions, and be informed of the latest news of the industry.

During the Year, we maintained good relationships with various key stakeholders, including employees, customers, suppliers, shareholders, government and regulatory agencies, the public and nearby communities. The Group will continue to ensure effective communication and good relationship with all key stakeholders. A description of key relationships with employees, customers and suppliers will be set out in the 2023 ESG Report of the Company which is published on the websites of the Hong Kong Stock Exchange and the Company respectively in accordance with the Listing Rules.

COMPLIANCE WITH LAWS AND REGULATIONS

At the company level, the Company has complied with the requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), including those related to information disclosures and corporate governance. The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix C3 to the Listing Rules (the “Model Code”).

In addition, the Group is principally engaged in the research, design, development, manufacture and sales of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications as well as trade of goods, and our operations are mainly conducted in the PRC. We noticed that the Group was not involved in any major violation of laws and regulations regarding the environmental protection, work safety, labour, child and forced labour, occupational health and safety, product liability, product labeling, advertising and prevention of bribery, such as the Company Law of the PRC, the Environmental Protection Law of the PRC, the Work Safety Law of the PRC, the Labour Law of the PRC, the Provisions on the Prohibition of Using Child Labour, the Code of Occupational Disease Prevention of the PRC, the Product Quality Law of the PRC, the Advertisement Law of the PRC, the Anti-Unfair Competition Law of the PRC, the Interim Provisions on Prohibition of Commercial Bribery and the Prevention of Bribery Ordinance (Chapter 201 of the Laws of Hong Kong).

KEY RISKS AND UNCERTAINTIES

Apart from the risk of foreign exchange rate fluctuation and interest rate risk set out in the Management Discussion and Analysis on pages 20 to 21 of this annual report, set out below are the key risks and uncertainties facing the Group. It is a non-exhaustive description herein and there may be other risks and uncertainties beyond the scopes outlined below. Besides, this annual report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult with their own investment advisors before making any investment in the securities of the Company.

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

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

DIRECTORS' REPORT

OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2023 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 62 to 63 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2023 (2022: nil).

DIVIDEND POLICY

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

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2023 was approximately RMB3,863,701,000 (2022: RMB3,823,774,000).

FIVE-YEAR FINANCIAL SUMMARY

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

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 35 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

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

BORROWINGS

Details of the borrowings of the Group during the Year are set out in note 29 to the consolidated financial statements.

TAXATION

Details of the taxation of the Group during the Year are set out in note 11 to the consolidated financial statements.

DIRECTORS' REPORT

DONATION EXPENDITURE

During the Year, the donation expenditure of the Group was approximately RMB217,000 (2022: RMB10,164,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

SHARE SCHEME

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

MAJOR SUPPLIERS AND CUSTOMERS

During the Year, the purchase amount (not of a capital nature) from the Group's top five suppliers and largest supplier accounted for approximately 36.6% and 12.7% of our total purchase amount respectively. During the Year, revenue from sales of goods to the Group's top five customers and largest customer accounted for approximately 47.3% and 11.5% of our total revenue from sales of goods respectively. All transactions between the Group and relevant suppliers and customers were carried out on normal commercial terms.

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

DIRECTORS' SERVICE CONTRACTS

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

Under the articles of association of the Company, at every annual general meeting of the Company, no less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and eligible to offer themselves for re-election. In addition, according to code provision B.2.3 of the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix C1 to the Listing Rules, if an independent non-executive Director serves more than nine years, his/her appointment should be subject to a separate resolution to be approved by shareholders.

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

DIRECTORS' REPORT

DIRECTORS AND THEIR TERMS

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

Executive Directors:

Mr. Hu Jichun (<i>Chairman and Chief Executive Officer</i>)	Three years from the date of his re-election on 25 June 2021.
Mr. Hu Yueming	Three years from the date of his re-election on 16 May 2022.
Mr. Chen Yongdao	Three years from the date of his re-election on 16 May 2022.
Mr. Wang Zhengbing	Resigned on 28 May 2023 due to family reasons and his other personal commitments.
Mr. Zhou Zhijin	Three years from the date of his re-election on 25 June 2021.
Ms. Zheng Qing	Three years from the date of her re-election on 16 May 2022.
Mr. Gu Xiaobin	Three years from the date of his re-election on 21 June 2023.
Mr. Fang Jian	Three years from the date of his re-election on 25 June 2021.

Independent Non-executive Directors:

Mr. Jiang Xihe	Three years from the date of his re-election on 25 June 2021.
Ms. Jiang Jianhua	Three years from the date of her re-election on 21 June 2023.
Dr. Chan Yau Ching, Bob	Three years from the date of his re-election on 21 June 2023.
Mr. Nathan Yu Li	Three years from the date of his re-election on 21 June 2023.

Each of the independent non-executive Directors has confirmed his/her independence based on the independence criteria as set out in Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent parties.

The biographies of the Directors as at 31 December 2023 are set out in the "Biographies of Directors and Senior Management" section on pages 22 to 28 of this annual report.

DETAILS OF THE EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid employees of the Group are set out in notes 9 and 45 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2023, the Group employed approximately 8,030 employees (31 December 2022: 7,580). During the Year, labor cost of the Group approximated to RMB1,984,982,000 (2022: RMB1,722,118,000). The cost included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

DIRECTORS' REPORT

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

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

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

PENSION SCHEMES

The PRC employees of the Group are covered by certain defined-contribution pension plans provided by the PRC government. Contributions under these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans. The 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. Except for the U.S. employees, the non-PRC employees are covered by other defined-contribution pension plans provided by the government of their respective country of residence.

During the Year, except for the U.S. employees, there were no forfeited contributions (for employees' departure) being used to offset the contributions made for the Year, and as at 31 December 2023, there were no forfeited contributions available to reduce future contributions payable.

Some U.S. employees participate in our defined contribution plans. During the year, contributions forfeited for employment termination of U.S. employees were applied to offset contributions for the year, and the forfeited contributions as at 31 December 2023 may also be applied for offsetting contribution payables in the future. Both amounts are not significant.

HUMAN RESOURCES POLICY

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

We view the continuous training of professional manager team with high level of professionalism, enthusiasm and responsibility as an important mission of our development so as to promote the Group's sustainable development.

DIRECTORS' REPORT

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the Directors' service agreements and letters of appointment disclosed above, no transactions, arrangements or contracts of significance to which the Company or its subsidiaries was a party and in which a Director or an entity related to a Director had a material interest, whether directly or indirectly, subsisted as at 31 December 2023 or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

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

During the Year, save as disclosed below, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

ASSOCIATED CORPORATIONS

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

Notes:

- (1) Nanjing High Speed is owned as to approximately 6.98% by Jinhu Shifu Enterprise Management LLP* (金湖驪福企業管理合夥企業(有限合夥)) (“Employee Partnership Enterprise”, formerly known as “Shanghai Shifu Enterprise Management LLP* (上海驪福企業管理合夥企業(有限合夥))”).
- (2) The Employee Partnership Enterprise is a limited liability partnership controlled by Jinhu Shiji Enterprise Management Consultancy Co., Ltd.* (金湖驪吉企業管理諮詢有限公司) (“Jinhu Shiji”, formerly known as “Shanghai Shiji Enterprise Management Consultancy Co., Ltd.* (上海驪吉企業管理諮詢有限公司)”), the sole general partner of the Employee Partnership Enterprise. Mr. Hu Yueming is the sole director and sole shareholder of Jinhu 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 10.56% by Jinhu Jiding Information Consultancy Services LLP* (金湖吉鼎信息諮詢服務合夥企業(有限合夥)) (“Jinhu Jiding”, formerly known as “Shouguang Jiding Information Consultancy Services LLP* (壽光吉鼎信息諮詢服務合夥企業(有限合夥))”), as one of the limited partners of the Employee Partnership Enterprise. Mr. Zhou Zhijin is one of the limited partners of Jinhu Jiding and holds approximately 46.70% interest in Jinhu Jiding.
- (4) The Employee Partnership Enterprise is owned as to approximately 23.58% by Jinhu Dingchuang Information Consultancy Services LLP* (金湖鼎創信息諮詢服務合夥企業(有限合夥)) (“Jinhu Dingchuang”, formerly known as “Shouguang Dingchuang Information Consultancy Services LLP* (壽光鼎創信息諮詢服務合夥企業(有限合夥))”), as one of the limited partners of the Employee Partnership Enterprise. Mr. Gu Xiaobin is one of the limited partners of Jinhu Dingchuang and holds approximately 20.92% interest in Jinhu Dingchuang.

DIRECTORS' REPORT

Save as disclosed above, as at 31 December 2023, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code. None of the Directors and chief executives of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

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

As at 31 December 2023, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company, which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, and so far as the Directors are aware, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name	Nature of interests	Number of ordinary shares held	Approximate percentages to the issued shares of the Company (%)
Five Seasons XVI Limited (“Five Seasons”) (Note 1)	Beneficial owner	1,189,050,693 (Long Position)	72.71 (Long Position)
Fullshare Holdings	Interest in controlled corporation	1,189,050,693 (Long Position)	72.71 (Long Position)

Note 1: Five Seasons, a company incorporated in the British Virgin Islands, is wholly owned by Fullshare Holdings (stock code: 607.HK). Accordingly, Fullshare Holdings is considered to have interests in 1,189,050,693 shares of the Company, representing approximately 72.71% of the issued shares of the Company.

Save as disclosed above and so far as the Directors are aware, as at 31 December 2023, there was no other person, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.



DIRECTORS' REPORT

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

No contracts of significance had been entered into by the Company or its subsidiaries with the controlling shareholders of the Company or their subsidiaries at any time during the Year.

RELATED PARTY TRANSACTIONS

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

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

CHANGE OF AUDITOR

The Company did not change its auditor in the past three years. The consolidated financial statements of the Group for the year ended 31 December 2023 have been audited by Baker Tilly Hong Kong Limited (“Baker Tilly”).

MATERIAL LITIGATIONS AND ARBITRATIONS

The Company had no material litigations and arbitrations during the Year.

PERMITTED INDEMNITY PROVISION

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

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

MANAGEMENT CONTRACTS

As at 31 December 2023, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

TAX RELIEF AND EXEMPTION

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

PRE-EMPTION RIGHTS

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



DIRECTORS' REPORT

SUFFICIENT PUBLIC FLOAT

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

By order of the Board

Hu Jichun

Chairman

Hong Kong

28 March 2024

CORPORATE GOVERNANCE REPORT

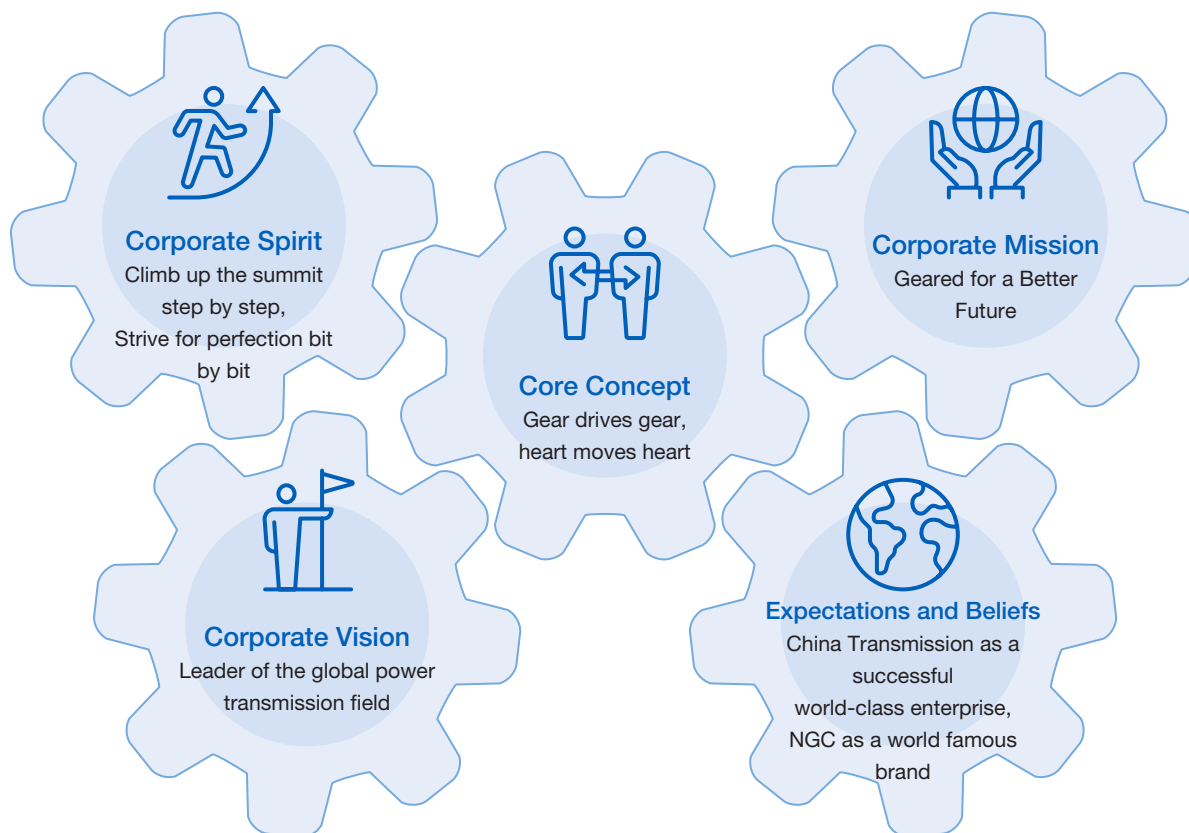
CORPORATE GOVERNANCE PRACTICES

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

During the Year, the Company has complied with the code provisions set out in the Corporate Governance Code, except for the deviation from code provision C.2.1 which states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

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

CORPORATE CULTURE



CORPORATE GOVERNANCE REPORT

A positive and healthy corporate culture is crucial for the Group to achieve its vision and mission. After several years of reform and development, the Group's established corporate culture has been further inherited and promoted. The Board and the management lead and shape the corporate culture of the Group, which acts as guiding principles for the Group to act lawfully, ethically and responsibly across all levels of the Group where every customer, employee and various stakeholders can benefit from the value we created together. The desired corporate culture of the Group is developed and practiced in its production operations, corporate governance and relations with stakeholders. During the Year, the Group continued to consolidate its corporate culture framework through various strategic initiatives. For the relevant achievements and details, please refer to the disclosure in the Company's 2023 ESG Report. The Board and the management implement high standards of corporate governance and establish sound and well-established corporate governance practices to ensure that the Company's vision, values and operating strategies are in line with its corporate culture.

CORPORATE STRATEGY AND BUSINESS MODEL

The Group has been focusing on the proprietary research and development, design, manufacture and sale of gear transmission products with high technology. Our products are widely applied in various industrial areas, customers of the Company are distributed in a number of equipment manufacturing industries around the world. In future development, the Group will enhance product quality, increase products of different models and strengthen the research and development of new products on the basis of the original gear transmission equipment products, to increase added value to products and to seek diversified developments in the Group's products. At the same time, to coordinate with the Company's subsidiaries in various regions across the world, we will identify the needs of customers and speed up and enhance our communication and contact with customers from all over the world so as to improve our services for them and resolve problems from customers as soon as possible, thus increasing customers' trust and satisfaction to the Group's products and services. We will continue to strengthen our overall corporate competitiveness in view of the Group's strategy of sustainable development.

COMPOSITION, PRACTICES AND INDEPENDENCE OF THE BOARD

The Board collectively takes responsibility to all the shareholders of the Company in respect of managing and supervising the business of the Group so as to achieve the target of enhancing value for the shareholders of the Company.

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

CORPORATE GOVERNANCE REPORT

The Board comprises eleven Directors, including seven executive Directors and four independent non-executive Directors. The Board held a total of 4 meetings during the Year. Each of the Directors and members of all committees and their attendance at the meetings were as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	2022 Annual General Meeting
No. of meetings held	4	2	1	1	1
Executive Directors					
Mr. Hu Jichun (<i>Chairman and Chief Executive Officer</i>)	4/4			1/1	1/1
Mr. Hu Yueming	4/4				1/1
Mr. Chen Yongdao	4/4		1/1		1/1
Mr. Wang Zhengbing (resigned on 28 May 2023)	1/2				0/0
Mr. Zhou Zhijin	4/4				1/1
Ms. Zheng Qing	4/4				1/1
Mr. Gu Xiaobin	4/4				1/1
Mr. Fang Jian	4/4				1/1
Independent Non-Executive Directors					
Mr. Jiang Xihe	4/4	2/2	1/1	1/1	1/1
Ms. Jiang Jianhua	4/4				1/1
Dr. Chan Yau Ching, Bob	4/4	2/2	1/1		1/1
Mr. Nathan Yu Li	4/4	2/2		1/1	1/1

The biographies of each of Directors are set out in the “Biographies of Directors and Senior Management” section on pages 22 to 28 in this annual report.

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

CORPORATE GOVERNANCE REPORT

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

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

Each of the independent non-executive Directors has confirmed in writing to the Company of his/her independence based on the independence criteria as set out in Rule 3.13 of the Listing Rules, and the Company considered all independent non-executive Directors to be independent based on such written confirmations.

The Company understands that the independence of the Board is a key to a sound corporate governance. To ensure that independent views and opinions are available to the Board, the majority of members from all Board committees are independent non-executive Directors. In assessing the suitability of a candidate, the nomination committee of the Company will review the candidate's biographies (including his/her qualifications and available time) and take into account the composition of the Board, the professional experience and skills of the Directors, the Company's nomination policy and board diversity policy. The nomination committee of the Company examines annually whether each independent non-executive Directors meet the guidelines for the assessment of independence set out in Rule 3.13 of the Listing Rules, has not been involved in the daily management of the Company or has any financial or other interest or relationship in the Company's business or any circumstance that could materially interfere with the exercise of his/her independent judgment, and ensures receipt of an annual confirmation of independence letter from each independent non-executive Directors. To assist Directors in properly performing their duties, all directors may seek advice from the company secretary or the internal legal team of the Company or from independent professional advisers at the Company's expense. Independent non-executive Directors receive only fixed fee. The Board will review the governance framework and mechanism on a regular basis to ensure their effectiveness.

The service terms of the current independent non-executive Directors are set out in the section entitled "Directors and Their Terms" on page 35 of this annual report.

CORPORATE GOVERNANCE REPORT

EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

The five highest paid individuals of the Group during the Year are all Directors, and details of their emoluments are set out in note 45 to the consolidated financial statements.

The emoluments of the senior management of the Group (other than the Directors) whose profiles are included in the “Biographies of Directors and Senior Management” section on pages 22 to 28 of this annual report were within the following band:

	No. of employees
RMB2,500,001 to RMB3,000,000	2

AUDIT COMMITTEE

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

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

During the Year, the audit committee (i) reviewed the annual report for the year ended 31 December 2022 and the interim report for the six months ended 30 June 2023 of the Company and reported the review conclusions to the Board; (ii) reviewed the independence of external auditors; (iii) considered and approved the external auditor’s remuneration and letter of engagement for the year ended 31 December 2022; and (iv) reviewed the internal control review reports, reviewed the appropriateness and effectiveness of the risk management and internal control systems of the Group as well as the internal audit function of the Group and made recommendations to the Board on the improvement of internal control, credit control and risk management of the Group.

The number of the meetings held by the audit committee during the Year and the attendance record of each member of the committee are set out in the section entitled “Composition, Practices and Independence of the Board” on page 44 of this annual report.

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

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE

The Company established the remuneration committee as approved by the Board on 8 June 2007 (updated on 29 December 2022). The remuneration committee currently comprises Dr. Chan Yau Ching, Bob, Mr. Jiang Xihe, who are independent non-executive Directors, and Mr. Chen Yongdao, who is an executive Director. Dr. Chan Yau Ching, Bob is the chairman of the remuneration committee.

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

The remuneration committee has adopted the model that it will review the proposals made by the management on the remuneration of individual Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the remuneration committee.

The major work performed by the remuneration committee during the Year included (among others) reviewing the remuneration package and structure for the Directors and senior management for the year ended 31 December 2023 having considered their performance, the remuneration policy for 2023, and the terms of service agreements for the Directors.

The number of the meetings held by the remuneration committee during the Year and the attendance record of each member of the committee are set out in the section entitled "Composition, Practices and Independence of the Board" on page 44 of this annual report.

NOMINATION COMMITTEE

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

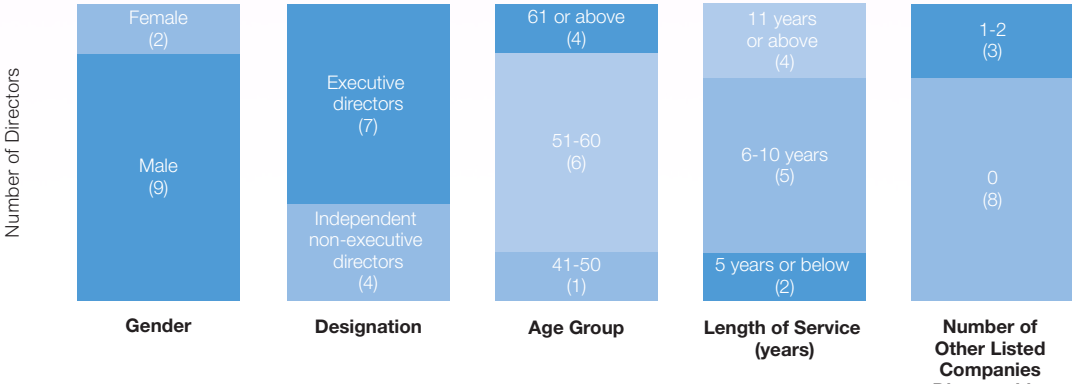
The nomination committee has established written terms of reference which have been published on the websites of the Company and the Hong Kong Stock Exchange. The primary duties of the nomination committee are to study the candidates, the selection criteria and procedure of the members of the Board and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

During the Year, the nomination committee reviewed the structure, number, composition and policy for diversity of the Board in respect of the Company's corporate strategy, to ensure that the composition of the Board complies with the Listing Rules and that the Board has skills, experience and diversified background in relation to the strategy, governance and business of the Company.

CORPORATE GOVERNANCE REPORT

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

The following table shows the diversity of the Board as at 31 December 2023:



The Company advocates gender equality and has been committed to providing female employees with equal employment opportunities, training resources, salary and benefits and career growth with male employees. The Company did not set any plans or measurable targets for the gender ratio of all employees, including senior management. For the gender ratio of the Company’s employee during the Year, please refer to the Company’s 2023 ESG Report.

Appointment of new Directors is first considered by the nomination committee of the Company. In considering the appointment of a Director, the nomination committee applies criteria such as relevant experience, educational and professional background, reputation for integrity and independence as well as the diversity of the Board as mentioned in the board diversity policy of the Company, including but not limited to gender, age, cultural background, educational background, professional experience, skills, knowledge and length of service. For the retiring Directors to be re-elected at annual general meetings, other than considering the selection criteria and diversity of the Board as mentioned above, the nomination committee will evaluate their overall contribution and service to the Company. The recommendations of the nomination committee are then put to the Board for consideration and approval. Thereafter, any Director appointed by the Board is subject to re-election at the general meeting after their appointment.

The number of the meetings held by the nomination committee during the Year and the attendance record of each member of the committee are set out in the section entitled “Composition, Practices and Independence of the Board” on page 44 of this annual report.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standards set out in the Model Code during the Year.

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, the company secretary of the Company, is responsible for facilitating the procedures of the Board and the communication among Directors, and between Directors and shareholders and the management of the Company. The biography of the company secretary is included in the "Biographies of Directors and Senior Management" section on pages 22 to 28 in this annual report. During the Year, Mr. Lui received in aggregate of more than 15 hours of professional trainings to update his skills and knowledge in accordance with Rule 3.29 of the Listing Rules.

ONGOING PROFESSIONAL DEVELOPMENT

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

CORPORATE GOVERNANCE REPORT

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

The individual training record of each of the existing Director during the Year is set out as follows:

	Readings on updates and materials on business, operation and/or corporate governance affairs	Lectures/seminars on business/director's responsibilities attended or participated
Executive Directors		
Mr. Hu Jichun (<i>Chairman and Chief Executive Officer</i>)	✓	✓
Mr. Hu Yueming	✓	✓
Mr. Chen Yongdao	✓	✓
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 REPORT

REMUNERATION OF AUDITOR

The audit fee and non-audit service fee for the year ended 31 December 2023 payable to Baker Tilly, the existing external auditor of the Group, amounted to RMB3,638,000 and RMB1,494,000, respectively. The breakdown of the non-audit service fees is as follows:

	RMB'000
Review of interim results	1,400
Others	94
	1,494

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL REPORT

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

Reporting responsibility statement with respect to the financial report of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 55 to 61 in this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

In order to achieve the long-term growth and sustainability of the Group's business, the successful management of risks (including risks relating to environment, society and governance) is essential. The Group has established a risk management organizational structure, which consisted of the Board, the audit committee and the senior management of the Group. The Board determines the risk nature and degree which shall be borne by the Group for achieving its strategic objective, and the senior management is responsible for the design, implementation and monitoring of risk management and internal control systems. The Board, through the audit committee, evaluates and reviews the effectiveness of the relevant systems at least once a year. Such evaluation includes consideration of the adequacy of resources, qualifications and experience of staff, and the adequacy of training courses and relevant budgets for the accounting, internal audit and financial reporting functions as well as the Company's environmental, social and governance performance and reporting.

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

CORPORATE GOVERNANCE REPORT

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

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

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

ANTI-CORRUPTION POLICY AND WHISTLE-BLOWING POLICY

The Group upholds a zero-tolerance policy against corruption, bribery and any malpractice and has formulated (i) an anti-corruption policy, which provides a guide to the code of conduct preventing corruption, bribery, fraud and other malpractices and assists the Directors and employees of the Company as well as other stakeholders to identify and deal with events that may involve corruption or unethical business conduct; (ii) a whistle-blowing policy, which supports the employees of the Group ("**Employees**") as well as third parties having business relations with the Group ("**Third Parties**") to express their concerns with any misconduct, malpractice or non-compliance related to the affairs of the Group appropriately. The whistle-blowing policy provides formal channels and guidelines for the Employees or the Third Parties (each a whistle-blower) to raise concerns about possible improprieties in any of the affairs of the Group to the audit committee of the Company confidentially and anonymously.

For further details of the anti-corruption policy and whistle-blowing policy and/or measures of the Group, please refer to the disclosure under "Business Ethics and Anti-Corruption" in the Company's 2023 ESG Report.

CORPORATE GOVERNANCE REPORT

HANDLING OF INSIDE INFORMATION

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

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

CONSTITUTIONAL DOCUMENTS

In order to (i) bring the constitutional documents of the Company in line with the amendments made to the applicable laws of the Cayman Islands and the Listing Rules; (ii) provide flexibility to the Company in relation to the conduct of general meetings by allowing general meetings of the Company to be held as electronic meetings or hybrid meetings (where shareholders may attend by electronic means in addition to as a physical meeting where shareholders attend in person or by proxy); and (iii) incorporate certain housekeeping amendments, the Board proposed to make certain amendments to the then existing Memorandum and Articles of Association (the “**Proposed Amendments**”) and to adopt the revised Memorandum and Articles of Association (the “**Revised M&A**”). The Proposed Amendments to, and adoption of, the Revised M&A were approved at the annual general meeting of the Company held on 21 June 2023. The Revised M&A has been published on the websites of the Company and the Stock Exchange.

Save as disclosed above, there was no change to the Company’s Memorandum and Articles of Association during the Year.

SHAREHOLDER COMMUNICATION POLICY

The Company’s shareholder communication policy is primarily to facilitate communication between the Company and shareholders (both individuals and institutions) and to ensure that shareholders have access to clear, transparent, accurate and timely information to make their investment decisions. The policy sets out different communication channels (including the Company’s website, market briefings and shareholders’ meetings). The Board reviewed the Company’s shareholder communication policy to ensure the best practices for communication with shareholders and reviewed the shareholder and investor engagement and communication activities conducted in 2023, and was satisfied with the implementation and effectiveness of the shareholder communication policy.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

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

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

As regards the procedure of nominating a person by shareholders of the Company for election as a Director, please refer to the "Procedures for a shareholder of the Company to propose a person for election as a Director" available on the website of the Company.

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

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

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

INDEPENDENT AUDITOR'S REPORT

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

OPINION

We have audited the consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 62 to 172, which comprise the consolidated statement of financial position as at 31 December 2023, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS

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

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments with significant inputs not based on observable market data (level 3)	
Refer to Note 3.3 (Fair value estimation), Note 4(a) (Critical accounting estimates and judgements – Estimation of fair value of certain financial assets), Note 20 (Financial assets at fair value through other comprehensive income) and Note 21 (Financial assets at fair value through profit or loss) to the consolidated financial statements.	We understood and tested management's procedures and key controls over the measurement of fair value in level 3 financial instruments; We evaluated the competence, capabilities and objectivity of the Group's external valuers;

As at 31 December 2023, the balances of the Group's financial assets measured at fair value with significant unobservable inputs amounted to approximately RMB3,521 million.

These unlisted financial instruments were valued with inputs not based on active market prices nor observable market data and were categorised as level 3 in the fair value hierarchy.

INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Fair value measurement of financial instruments with significant inputs not based on observable market data (level 3) <i>(Continued)</i></p> <p>The fair values of level 3 financial instruments were determined through the application of valuation techniques. With assistance from external valuers, management has exercised significant judgements and estimates in identifying the appropriate valuation models and inputs including but not limited to revenue growth rate, operating margin, discount rate, liquidity discounts, multiples in related to share price changes and price-to-book. We have therefore focused on this area.</p>	<p>We evaluated and challenged the valuation models and key inputs adopted by the Group including:</p> <ul style="list-style-type: none">• Compared the revenue growth rate and operating margin to the forecast of future profits, historical data, market trend, and evaluate the assumption adopted by management as appropriate;• Assessed the reasonableness of the discount rate by comparing weighted average cost of capital of comparable companies in the open market;• Evaluated the liquidity discounts, share price changes and price-to-book multiples used by comparing with similar types of companies; and• Evaluated the valuation of selected financial instruments by considering alternative valuation methodologies and assessing sensitivities to key inputs. <p>Based on the procedures above, we consider the judgements and estimates made by management in measuring the fair values of level 3 financial instruments with significant unobservable inputs were supported by available evidences.</p>

INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Recoverability of trade receivables at amortised cost</p> <p>Refer to Note 3.1(b) (Financial risk management – Credit risk), Note 4(b) (Critical accounting estimates and judgements – Expected credit loss for receivables) and Note 25 (Trade and other receivables) to the consolidated financial statements.</p> <p>As at 31 December 2023, the Group's trade receivables at amortised cost amounted to approximately RMB8,489 million (net of allowance of approximately RMB650 million).</p> <p>Management applied significant judgement in assessing the expected credit losses on trade receivables. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for loss allowances. Expected credit losses are also estimated by grouping the remaining receivables based on similar credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customers and its ageing category. The expected credit loss rates are determined based on historical credit losses experienced from the past 12 to 48 months and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables.</p> <p>We focused on this area because significant management judgements and estimates are applied in determining the provision for impairment of such balances.</p>	<p>We understood and tested key controls on a sample basis over management's policies, processes and controls over assessment on recoverability of trade receivables balances and determination of loss allowances;</p> <p>We assessed the appropriateness of the credit loss provisioning methodology used by the Group;</p> <p>For trade receivables assessed individually, we obtained management's assessment on the collectability (both amount and timing) of receivables balances. We corroborated against available evidences, including interviewing sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to whether there are any disputes with customers;</p> <p>We challenged the management's assumptions used to determine the expected credit losses by considering cash collection performance against historical trends and current and forward-looking information such as the impact of macroeconomic factors on probability of default and loss given default based on our understanding of the industry and with reference to both internal and external data source, and evaluate the historical accuracy of these default data adopted by management;</p> <p>We tested, on a sample basis, whether items in the trade debtor ageing report were classified within the appropriate ageing brackets by comparing individual items in the report with underlying documentation, including sales invoices or equivalent; and</p> <p>We re-performed management's calculation of loss allowances assessment.</p> <p>Based upon the above, we consider that the judgements and estimates made by management in respect of the loss allowances of trade receivables were supportable by available evidences.</p>

INDEPENDENT AUDITOR'S REPORT *(continued)*

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

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

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

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORT *(continued)*

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, 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.

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

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

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

INDEPENDENT AUDITOR'S REPORT *(continued)*

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

(Continued)

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement director on the audit resulting in this independent auditor's report is Mr. Chan Sai Ho.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 28 March 2024

Chan Sai Ho

Practising certificate number P07705

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Revenue from contracts with customers	5	24,077,148	21,079,654
Cost of sales		(20,682,363)	(17,816,422)
Gross profit		3,394,785	3,263,232
Selling and distribution expenses		(532,167)	(479,184)
Administrative expenses		(561,429)	(557,794)
Research and development costs		(904,473)	(744,816)
Net impairment losses recognised on financial assets	3.1(b)	(295,106)	(212,812)
Other income	6	211,712	210,242
Other gains – net	7	57,499	120,851
Operating profit		1,370,821	1,599,719
Finance income	10	123,086	116,534
Finance costs	10	(763,559)	(588,814)
Finance costs – net		(640,473)	(472,280)
Share of results of associates	18	(2,639)	(83,849)
Profit before income tax		727,709	1,043,590
Income tax expenses	11	(112,473)	(399,379)
Profit for the year		615,236	644,211
Profit attributable to:			
– Owners of the Company		95,517	101,599
– Non-controlling interests		519,719	542,612
		615,236	644,211
Earnings per share (expressed in RMB)			
Basic and diluted earnings per share	12	0.058	0.062

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2023

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Profit for the year	615,236	644,211
Other comprehensive (loss)/income for the year:		
<i>Items that may be reclassified subsequently to profit or loss</i>		
– Changes in fair value of debt investments at fair value through other comprehensive income	9,013	10,810
– Exchange differences on translation of foreign operations	(27,618)	(18,380)
– Income tax relating to these items	(1,517)	(779)
	(20,122)	(8,349)
<i>Items that will not be reclassified to profit or loss</i>		
– Changes in fair value of equity investments at fair value through other comprehensive income	(353,956)	(387,597)
– Income tax relating to these items	76,496	101,934
	(277,460)	(285,663)
Other comprehensive loss for the year, net of tax	(297,582)	(294,012)
Total comprehensive income for the year	317,654	350,199
Total comprehensive (loss)/income for the year attributable to:		
– Owners of the Company	(202,641)	(194,234)
– Non-controlling interests	520,295	544,433
	317,654	350,199

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	14	8,988,566	7,124,012
Right-of-use assets	15	719,049	676,284
Goodwill	16	26,414	26,414
Investments in associates	18	196,297	220,023
Financial assets at fair value through other comprehensive income	20	1,290,427	1,613,095
Financial assets at fair value through profit or loss	21	411,400	387,600
Deposits for land leases	23	5,890	5,890
Deferred tax assets	33	905,494	728,894
		12,543,537	10,782,212
Current assets			
Inventories	24	6,544,851	6,928,601
Trade receivables	25	8,489,248	7,090,581
Other receivables	25	1,436,709	1,313,896
Prepayments	26	1,596,936	1,855,636
Financial assets at fair value through other comprehensive income	20	1,804,904	3,531,659
Financial assets at fair value through profit or loss	21	53,046	182,035
Other financial assets at amortised cost	22	–	641,421
Income tax recoverable		40,875	27,671
Pledged bank deposits	27	3,562,398	4,897,224
Cash and cash equivalents	27	5,627,891	4,383,517
		29,156,858	30,852,241
Current liabilities			
Trade payables	28	3,396,014	4,148,629
Bills payables	28	3,950,352	5,916,252
Other payables	28	1,393,772	1,309,726
Contract liabilities	30	1,729,685	1,508,801
Borrowings	29	5,036,621	4,657,412
Deferred income	31	42,925	18,495
Income tax payable		137,640	259,438
Warranty provision	32	1,144,479	988,395
Written put option liability	34	4,772,175	4,514,175
		21,603,663	23,321,323

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2023

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
Net current assets		7,553,195	7,530,918
Total assets less current liabilities		20,096,732	18,313,130
Non-current liabilities			
Borrowings	29	4,457,964	3,185,172
Deferred income	31	475,164	303,077
Warranty provision	32	1,124,470	1,114,729
Deferred tax liabilities	33	126,910	115,582
		6,184,508	4,718,560
Net assets		13,912,224	13,594,570
Capital and reserves			
Share capital	35	119,218	119,218
Reserves	36	10,154,092	10,356,733
Equity attributable to owners of the Company		10,273,310	10,475,951
Non-controlling interests		3,638,914	3,118,619
Total equity		13,912,224	13,594,570

Approved and authorised for issue by the Board of Directors on 28 March 2024.

Hu Jichun
Director

Chen Yongdao
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2023

	Attributable to owners of the Company				Non-controlling interests	Total equity	
	Note	Share capital RMB'000	Other reserves RMB'000 (Note 36)	Retained earnings RMB'000			Total RMB'000
At 1 January 2022		119,218	5,146,181	8,133,796	13,399,195	368,840	13,768,035
Profit for the year		-	-	101,599	101,599	542,612	644,211
Other comprehensive (loss)/income for the year		-	(295,833)	-	(295,833)	1,821	(294,012)
Total comprehensive (loss)/income for the year		-	(295,833)	101,599	(194,234)	544,433	350,199
Transfer of fair value reserve upon disposal of equity investment at FVOCI		-	41,147	(41,147)	-	-	-
Partial disposal of interest in a subsidiary without loss of control		-	(2,729,010)	-	(2,729,010)	2,205,346	(523,664)
Appropriation to statutory reserve		-	414,597	(414,597)	-	-	-
At 31 December 2022		119,218	2,577,082	7,779,651	10,475,951	3,118,619	13,594,570
At 1 January 2023		119,218	2,577,082	7,779,651	10,475,951	3,118,619	13,594,570
Profit for the year		-	-	95,517	95,517	519,719	615,236
Other comprehensive (loss)/income for the year		-	(298,158)	-	(298,158)	576	(297,582)
Total comprehensive (loss)/income for the year		-	(298,158)	95,517	(202,641)	520,295	317,654
Transfer of fair value reserve upon disposal of equity investment at FVOCI	20(ii)(a)	-	8,288	(8,288)	-	-	-
Appropriation to statutory reserve		-	77,150	(77,150)	-	-	-
At 31 December 2023		119,218	2,364,362	7,789,730	10,273,310	3,638,914	13,912,224

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2023

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Cash flows from operating activities			
Cash generated from operations	38	689,816	1,225,599
Income tax paid		(337,773)	(318,986)
Net cash generated from operating activities		352,043	906,613
Cash flows from investing activities			
Placements of pledged bank deposits		(10,162,620)	(10,045,880)
Withdrawal of pledged bank deposits		11,497,446	7,046,133
Investment in structured bank deposits		(160,000)	(60,000)
Redemption of structured bank deposits		213,556	237,013
Purchase of financial assets at fair value through other comprehensive income		–	(30,000)
Proceeds from disposal of financial assets at fair value through other comprehensive income	20	18,710	46,256
Dividends received from financial assets at FVOCI and FVTPL	6	1,105	3,005
Purchases of property, plant and equipment		(2,431,810)	(2,606,520)
Purchases of right-of-use assets		(55,825)	(20,806)
Proceeds from disposal of property, plant and equipment		67,844	18,785
Net cash outflow from acquisition of a subsidiary		–	(6,840)
Proceeds from disposal of an associate	18	13,000	–
Interests received		144,840	103,175
Interest income received from deferred payment of consideration for partial disposal of a subsidiary		–	115,491
Receipt of government grants	31	236,017	125,829
Loans to third parties		(15,000)	(430,000)
Repayments from third parties and former subsidiaries		329,387	45,000
Net cash used in investing activities		(303,350)	(5,459,359)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2023

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Cash flows from financing activities			
Proceeds from bank borrowings		7,907,413	8,162,574
Repayment of bank borrowings		(6,255,412)	(4,318,089)
Interest paid		(474,235)	(392,135)
Dividends paid to non-controlling interests		–	(89,002)
Loans from third parties		–	120,000
Repayment of loans from third parties		–	(370,000)
Consideration received for partial disposal of a subsidiary without loss of control		–	3,300,000
Income tax paid on partial disposal of a subsidiary without loss of control		–	(838,804)
Net cash generated from financing activities		1,177,766	5,574,544
Net increase in cash and cash equivalents		1,226,459	1,021,798
Cash and cash equivalents at beginning of year		4,383,517	3,284,166
Exchange gains on cash and cash equivalents		17,915	77,553
Cash and cash equivalents at end of year	27	5,627,891	4,383,517

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

China High Speed Transmission Equipment Group Co., Ltd. (the “Company”) is a limited liability company incorporated in the Cayman Islands as an exempted company on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) with effect from 4 July 2007. The registered office of the Company is located at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, 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”), and the ultimate holding company is Fullshare Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on the Hong Kong Stock Exchange.

As at 31 December 2023, total shares of the Company were 1,635,291 thousands (2022: 1,635,291 thousands).

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

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION

2.1 Basis of preparation and changes in accounting policies

2.1.1 Basis of preparation

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation and changes in accounting policies *(Continued)*

2.1.2 Changes in accounting policies

(a) New and amendments to IFRSs adopted by the Group

In the current year, the Group has applied the following new and amendments to IFRSs (the “Amendments”) issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on 1 January 2023 for the preparation of the Group’s consolidated financial statements:

Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies
Amendments to IAS 8	Definition of accounting estimates
Amendments to IAS 12	Deferred tax related to assets and liabilities arising from a single transaction
Amendments to IAS 12	International Tax Reform – Pillar Two Model Rules
IFRS 17 (including the June 2020 and December 2021 Amendments to IFRS 17)	Insurance contracts

The application of the new and amendments to IFRSs in the current year has had no material impact on the Group’s financial positions and performance for the current and prior years, but has affected the disclosure of the Group’s accounting policies set out in Note 2 to the consolidated financial statements.

The Group has applied the amendments for the first time in the current year. IAS 1, Presentation of Financial Statements, is amended to replace all instances of the term “significant accounting policies” with “material accounting policy information”. Accounting policy information is material if, when considered together with other information included in an entity’s financial statements, it can reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements.

The amendments also clarify that accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material. If an entity chooses to disclose immaterial accounting policy information, such information must not obscure material accounting policy information.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.1 Basis of preparation and changes in accounting policies *(Continued)*

2.1.2 Changes in accounting policies *(Continued)*

(a) New and amendments to IFRSs adopted by the Group (Continued)

IFRS Practice Statement 2, Making Materiality Judgements (the “Practice Statement”), is also amended to illustrate how an entity applies the “four-step materiality process” to accounting policy disclosures and to judge whether information about an accounting policy is material to its financial statements. Guidance and examples are added to the Practice Statement.

(b) Amendments to IFRSs in issue but not yet effective

Certain amendments to IFRSs listed below have been issued but are not effective for the year ended 31 December 2023 and have not been early adopted by the Group. The amendments are either currently not relevant to the Group or had no material impact on the Group’s consolidated financial statements in the foreseeable future.

- Amendments to IAS 1, ‘Classification of liabilities as current or non-current’, effective for the annual period beginning on or after 1 January 2024
- Amendments to IAS 1, ‘Non-current liabilities with covenants’, effective for the annual period beginning on or after 1 January 2024
- Amendments to IFRS 16, ‘Lease liability in a sale and leaseback’, effective for the annual period beginning on or after 1 January 2024
- Amendments to IAS 7 and IFRS 7, ‘Supplier finance arrangements’, effective for the annual period beginning on or after 1 January 2024
- Amendments to IAS 21, ‘Lack of exchangeability’, effective for the annual period beginning on or after 1 January 2025
- Amendments to IFRS 10 and IAS 28, ‘Sale or contribution of assets between an investor and its associate or joint venture’, the effective date is to be determined

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity.

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

Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises:

- Fair values of the assets transferred;
- Liabilities incurred to the former shareholders of the acquired business;
- Equity interests issued by the Group;
- Fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

Business combinations (Continued)

The excess of:

- Consideration transferred;
- Amount of any non-controlling interest in the acquired entity; and
- Acquisition-date fair value of any previous equity interest in the acquired entity,

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently re-measured to fair value with changes in fair value recognised in profit or loss.

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

2.2.2 Investments in subsidiaries separate financial statements

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control, which is generally accompanying a shareholding between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting, after initially being recognised at cost. Under the equity method of accounting, the investments are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses of the investee in profit or loss, and the Group's share of movements in other comprehensive income of the investee in other comprehensive income. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses in an equity-accounted investment equals or exceeds its interest in the entity, including any other unsecured long-term receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the other entity.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.9.

2.4 Changes in the Group's ownership interests in existing subsidiaries and associates

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity shareholders of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to the owners of the Company.

When the Group ceases to consolidate or equity account for an investment because of a loss of control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.6 Foreign currency translation *(Continued)*

(c) Group companies

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.6 Foreign currency translation *(Continued)*

(d) Disposal of foreign operation and partial disposal

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

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

2.7 Property, plant and equipment

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.7 Property, plant and equipment *(Continued)*

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

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

Freehold lands are stated at cost less any impairment losses and are not depreciated.

Construction in progress is stated at cost less any impairment losses, and is not depreciated. It is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.8 Goodwill

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

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

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

2.9 Impairment of non-financial assets

Goodwill and freehold lands that have an indefinite useful life are not subject to amortisation or depreciation, and are tested annually for impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's value-in-use and fair value less costs of disposal. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.10 Investments and other financial assets

2.10.1 Classification

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

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

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

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

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

2.10.2 Recognition and derecognition

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

2.10.3 Measurement

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.10 Investments and other financial assets *(Continued)*

2.10.3 Measurement *(Continued)*

Debt instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.10 Investments and other financial assets *(Continued)*

2.10.3 Measurement *(Continued)*

Equity instruments

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

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

2.10.4 Derecognition of financial assets

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.10 Investments and other financial assets *(Continued)*

2.10.5 Impairment

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

Other financial assets measured at fair value, including equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to ECL assessment.

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

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

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.12 Inventories

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

2.13 Trade receivables, bills receivables and other receivables

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

Trade receivables and other receivables is unconditional unless they contain significant financing components when they are recognised at fair value. The Group holds the trade and other receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method, less allowance for impairment as the Group holds the trade receivables, bills receivables and other receivables with the objective of collecting the contractual cash flows. See Note 2.10 for further information about the Group's accounting for receivables and for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

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

2.15 Restricted cash

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.16 Share capital

Ordinary shares are classified as equity.

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

2.17 Trade payables, bills payables and other payables

Trade payables, bills payables and other payables represented liabilities for goods and services provided to the Group prior to the end of year which are unpaid. Trade payables, bills payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.18 Borrowings

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.19 Borrowing costs

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

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

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

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

2.20 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company, its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.20 Current and deferred income tax *(Continued)*

(b) Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, or if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss and at the time of the transaction does not give rise to equal taxable and deductible temporary differences. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply at the time when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences and tax losses can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, would the deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is recognised.

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

(c) Offsetting

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and where the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.21 Employee benefits

(a) Short-term obligations

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

(b) Pension obligations

The People's Republic of China (the "PRC") employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans. The non-PRC employees are covered by other defined-contribution pension plans sponsored by the government of their respective country of residence.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: when the Group can no longer withdraw the offer of those benefits; and when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.22 Provisions and contingent liabilities

Provisions

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

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

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

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

Contingent liabilities

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.23 Written put option liability

The Group has a written put option over the equity of a subsidiary which permit the holder to put their shares in the subsidiary back to the Group at an agreed price on specified dates over a three-year period. The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount within 'written put option liability' with a corresponding charge directly to equity within 'other reserves'.

The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the option becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

2.24 Revenue recognition

(a) Revenue from contracts with customers

(i) Sales of gear products and trading of goods

Revenue is recognised when control of the goods has been transferred, being when the goods have been shipped to the customer's specific location (delivery) and there is no unfulfilled obligation that could affect the customers' acceptance of the products. Transportation and handling activities that occur before customers obtain control are considered as fulfilment activities.

No element of financing is deemed present as the sales are made with a credit term of 90 days upon delivery, which is consistent with market practice.

The Group provides standard warranty on its gear products and is obliged to repair or replace faulty products under the standard warranty terms, the standard warranty is recognised as a provision in Note 32.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.24 Revenue recognition *(Continued)*

(b) Revenue from other sources

(i) Rental income

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(ii) Interest income

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

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

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

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

(iii) Dividend income

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.25 Government grants

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

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

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

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

2.26 Leases

A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.26 Leases *(Continued)*

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

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

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.27 Research and development costs

All research costs are charged to consolidated income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.28 Financial guarantee contracts

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

- the amount of loss allowance under ECL model determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 BASIS OF PREPARATION AND MATERIAL ACCOUNTING POLICY INFORMATION *(Continued)*

2.29 Related parties

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

(a) **Market risk**

(i) *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollars ("USD"), Euros ("EUR") and Hong Kong dollars ("HKD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. Approximately 5% (2022: 5%) of the Group's sales were denominated in currencies other than the functional currency of the operating units making the sale, whilst approximately 1% (2022: 1%) of costs were not denominated in the functional currency. The Group currently does not enter into any hedge under the Group's foreign currency risk strategy, however, the Group monitors foreign exchange exposure and will consider hedging significant exposure should the need arises.

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Assets		
USD	1,484,809	822,695
EUR	459,347	291,612
HKD	45,974	73,405
Liabilities		
USD	26,444	69,556
EUR	2,919	15,320
HKD	304	300

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk *(Continued)*

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rates, with all other variables held constant, of the Group's profit after income tax (due to changes in the fair value of monetary assets and liabilities). Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded from the analysis. The analysis is performed at the same basis as 2022.

	Increase/ (decrease) in RMB rate %	(Decrease)/ increase in profit after income tax RMB'000	(Decrease)/ increase in equity* RMB'000
For the year ended 31 December 2023			
If the USD weakens against the RMB	5%	(60,969)	–
If the USD strengthens against the RMB	(5%)	60,969	–
If the EUR weakens against the RMB	5%	(18,952)	–
If the EUR strengthens against the RMB	(5%)	18,952	–
If the HKD weakens against the RMB	5%	(2,230)	–
If the HKD strengthens against the RMB	(5%)	2,230	–
For the year ended 31 December 2022			
If the USD weakens against the RMB	5%	(33,915)	–
If the USD strengthens against the RMB	(5%)	33,915	–
If the EUR weakens against the RMB	5%	(12,555)	–
If the EUR strengthens against the RMB	(5%)	12,555	–
If the HKD weakens against the RMB	5%	(2,765)	(890)
If the HKD strengthens against the RMB	(5%)	2,765	890

* Excluding retained earnings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and borrowings. The Group manages its interest rate exposures by assessing the potential impact arising from any interest movements based on interest rate level and outlook. The Group will review the relative proportions of its fixed rate and floating rate contracts and ensure they are within reasonable range.

As at 31 December 2023, the Group's short-term and long-term interest-bearing borrowings denominated with floating rates amounted to RMB5,062,585 thousands (31 December 2022: RMB3,080,172 thousands). If the interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit after income tax for the year ended 31 December 2023 would have decreased by approximately RMB20,046 thousands (2022: RMB13,091 thousands).

(iii) Equity price risk

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

All of the Group's unquoted investments are held for long-term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long-term strategic plans.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Equity price risk (Continued)

The sensitivity analysis below has been determined based on the exposure to equity price risk at the end of the reporting period. If the prices of the respective listed equity instruments had been 10% (2022: 10%) higher/lower, the total comprehensive income for the year ended 31 December 2023 would have increased/decreased by approximately RMB3,898 thousands excluding any tax effect as above (2022: RMB6,406 thousands excluding any tax effect as above), as a result of the changes in fair value of the listed equity instruments.

If the fair value of the respective unlisted equity instruments had been 10% (2022: 10%) higher/lower, the profit and total comprehensive income for the year ended 31 December 2023 would have increased/decreased by approximately RMB42,118 thousands and RMB167,263 thousands excluding any tax effect as above (2022: RMB39,696 thousands and RMB194,599 thousands excluding any tax effect as above) respectively, as a result of the changes in fair value of the unlisted equity instruments.

(b) Credit risk

(i) Risk management

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

The Group has policies to limit the credit risk exposure on these aforesaid financial assets. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial positions, the availability of guarantees from third parties, their credit histories and other factors such as current market conditions. Management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel their credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent. The Group does not obtain collateral from customers or counterparties in respect of trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(i) *Risk management (Continued)*

The Group has concentration of credit risk in respect of bank balances and pledged bank deposits. As at 31 December 2023, approximately 82% (2022: 83%) of the total bank balances and pledged bank deposits were deposited at 7 (2022: 7) banks, with deposits at each bank with a balance exceeding 7% (2022: 9%) of total bank balances and pledged bank deposits.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group also has concentration of credit risk with exposure limited to certain counterparties and customers. As at 31 December 2023, trade receivables from top one customer and top five customers accounted for approximately 15% and 34% (2022: 9% and 24%) of the Group's trade receivables respectively. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk. Other than above, there is no other concentration of credit risk on the Group's trade and bills receivables.

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

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

The Group has five types of financial assets that are subject to the ECL model:

- Bank balances and pledged bank deposits,
- Trade receivables for sales of goods,
- Other receivables,
- Bills receivables carried at FVOCI, and
- Financial guarantee contracts

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

Bank balances and pledged bank deposits

The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit ratings assigned by international credit-rating agencies or stated-owned banks with good reputation.

Trade receivables

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

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

For the remaining trade receivables, the Group uses provision matrix to measure the ECL. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL rates are determined based on historical credit losses experienced from the past 12 to 48 months and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product ("GDP"), Producer Price Index ("PPI") and Industry Value-added ("IVA") in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

Trade receivables (Continued)

On that basis, the loss allowance as at 31 December 2023 and 2022 was determined as follows for trade receivables:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Over 4 years RMB'000	Total RMB'000
As at 31 December 2023						
ECL rate	1%	22%	46%	68%	100%	5%
Gross carrying amount						
– Trade receivables assessed under provision matrix (excluding trade receivables of which 100% loss allowances specifically provided)	8,170,686	345,017	178,298	105,233	145,730	8,944,964
Loss allowances under provision matrix	81,965	74,742	81,968	71,311	145,730	455,716
100% loss allowances specifically provided	12,956	–	–	–	181,354	194,310
Loss allowances	94,921	74,742	81,968	71,311	327,084	650,026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

Trade receivables *(Continued)*

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Over 4 years RMB'000	Total RMB'000
As at 31 December 2022						
ECL rate	1%	33%	47%	78%	100%	6%
Gross carrying amount						
- Trade receivables assessed under provision matrix (excluding trade receivables of which 100% loss allowances specifically provided)	6,830,625	398,383	159,199	32,219	158,993	7,579,419
Loss allowances under provision matrix	96,814	133,269	74,587	25,175	158,993	488,838
100% loss allowances specifically provided	-	-	-	11,085	170,537	181,622
Loss allowances	96,814	133,269	74,587	36,260	329,530	670,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

Trade receivables (Continued)

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

	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at 1 January 2022	378,140	184,457	562,597
Impairment losses recognised/(reversed)	122,285	(2,835)	119,450
Amount written off as uncollectible	(11,587)	–	(11,587)
As at 31 December 2022	488,838	181,622	670,460
Impairment losses (reversed)/recognised	(22,026)	12,956	(9,070)
Amount written off as uncollectible	(10,684)	(268)	(10,952)
Disposal of a subsidiary	(412)	–	(412)
As at 31 December 2023	455,716	194,310	650,026

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

Other receivables

The Group uses three-stage model for other receivables which reflect their credit risk and how the ECL provision is determined for each of those categories. The Group accounts for its credit risk by providing for 12 month and lifetime ECL on a timely basis. In calculating the ECL rates, the Group considers both historical loss rates and forward-looking macroeconomic data. A summary of the assumptions underpinning the Group's ECL model is as follow:

Category	Group definition of category	Basis for recognition of ECL provision	ECL rate
Stage one	Debtors have a low risk of default and a strong capacity to meet contractual cash flows, or debtors frequently repay after due dates but usually settle in full	12-month ECL	0% – 20%
Stage two	There have been significant increases in credit risk since initial recognition through information developed internally or external sources, or when contractual payments are more than 30 days past due	Lifetime ECL	5% – 50%
Stage three	There is evidence indicating the receivable is credit impaired, or when contractual payments are 90 days past due	Lifetime ECL	50% – 100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

Other receivables (Continued)

The following table shows reconciliation of loss allowances that has been recognised for other receivables:

	12-month ECL RMB'000	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at 1 January 2022	2,285	81,473	290,373	374,131
Impairment losses recognised	4,900	12,491	75,971	93,362
Amount written off as uncollectible	–	–	(116)	(116)
As at 31 December 2022	7,185	93,964	366,228	467,377
Impairment losses (reversed)/ recognised	(5,850)	(73,789)	383,815	304,176
Amount written off as uncollectible	–	–	(168)	(168)
As at 31 December 2023	1,335	20,175	749,875	771,385

As at 31 December 2022, other financial assets at amortised cost were considered to be low credit risk where they had a low risk of default and the issuer had a strong capacity to meet its contractual cash flow obligations, therefore no loss allowance was recognised in profit or loss during the year ended 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

Bills receivables carried at FVOCI

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

Financial guarantee contracts

At the end of the reporting period, the management has performed impairment assessment, and concluded that there has been no significant increase in credit risk since initial recognition of the financial guarantee contracts. Accordingly, the impairment provision for financial guarantee contracts issued by the Group is measured at an amount equal to 12-month ECL. For the year ended 31 December 2023, no provision for loss allowance was recognised in profit or loss in relation to the financial guarantee contracts.

Net impairment losses on financial assets recognised in profit or loss

For the year ended 31 December 2023 and 2022, the summary of the net impairment losses recognised/(reversed) in profit or loss is as follows:

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
(Reversal of)/provision for impairment losses on		
– Trade receivables	(9,070)	119,450
– Other receivables	304,176	93,362
	295,106	212,812

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(iii) Financial assets at FVPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVOCI or designated as FVOCI are measured at FVPL.

As at 31 December 2023, the Group is also exposed to credit risk in relation to debt investments that are measured at FVPL. The debt investments which are unrated or credit rating below the pre-set levels have to be approved by the investment committee. The management regularly reviews and monitors the portfolio of debt securities.

The maximum exposure at the end of the reporting period is the carrying amount of these investments, which is RMB43,262 thousands (2022: RMB172,678 thousands).

(c) Liquidity risk

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

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

As at 31 December 2023, the Group held cash and cash equivalents of RMB5,627,891 thousands (2022: RMB4,383,517 thousands) (Note 27) and trade receivables of RMB8,489,248 thousands (2022: RMB7,090,581 thousands) (Note 25) that are expected to readily generate cash inflows for managing liquidity risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

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

Contractual maturities of financial liabilities	Less than 1 year or on demand RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
At 31 December 2023					
Non-derivatives					
Borrowings	5,101,797	1,931,062	1,719,232	1,679,874	10,431,965
Trade payables	3,396,014	–	–	–	3,396,014
Bills payables	3,950,352	–	–	–	3,950,352
Other payables	838,750	–	–	–	838,750
Financial guarantee contracts	1,530	24,747	–	–	26,277
Written put option liability	4,772,175	–	–	–	4,772,175
	18,060,618	1,955,809	1,719,232	1,679,874	23,415,533
At 31 December 2022					
Non-derivatives					
Borrowings	4,912,587	1,012,996	1,479,821	1,124,363	8,529,767
Trade payables	4,148,629	–	–	–	4,148,629
Bills payables	5,916,252	–	–	–	5,916,252
Other payables	896,585	–	–	–	896,585
Financial guarantee contracts	2,549	2,549	41,228	–	46,326
Written put option liability	4,514,175	–	–	–	4,514,175
	20,390,777	1,015,545	1,521,049	1,124,363	24,051,734

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

The amount included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee for loans procured by the purchasers of the Group's properties. Based on the expectations at the end of the reporting period, the Group considers that amount of RMB2,672 thousands (2022: RMB3,417 thousands) will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

The amount included above for written put option liability is the maximum amounts the Group could be required to settle under the Equity Transfer Agreement as detailed in Note 34.

3.2 Capital management

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

The gearing ratio as at 31 December 2023 and 2022 are as follows:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Total assets	41,700,395	41,634,453
Total liabilities	27,788,171	28,039,883
Gearing ratio	66.6%	67.3%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2023 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
- The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following tables set out the Group's financial assets that were measured at fair value as at 31 December 2023 and 2022:

Recurring fair value measurements	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2023				
Financial assets				
Financial assets at FVPL	–	–	464,446	464,446
Financial assets at FVOCI	38,975	–	3,056,356	3,095,331
	38,975	–	3,520,802	3,559,777
At 31 December 2022				
Financial assets				
Financial assets at FVPL	–	–	569,635	569,635
Financial assets at FVOCI	64,062	–	5,080,692	5,144,754
	64,062	–	5,650,327	5,714,389

The management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair values of financial instruments except as detailed above, including the discounted cash flow analysis, net asset value and market 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 multiples, share price changes multiples, etc.

There were no transfers among levels during the years ended 31 December 2023 and 2022.

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 31 December 2023 and 31 December 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

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

The following table presents the changes in level 3 items for the years ended 31 December 2023 and 31 December 2022:

	Financial assets at FVPL			Financial assets at FVOCI		Financial assets
	Unlisted equity investments RMB'000 (Note 21)	Trade receivables RMB'000 (Note 21)	Structured bank deposits RMB'000 (Note 21)	Unlisted equity investments RMB'000 (Note 20)	Bills receivables RMB'000 (Note 20)	Total RMB'000
At 1 January 2022	373,160	176,407	225,811	1,950,061	3,262,355	5,987,794
Acquisitions	–	320,031	60,000	–	14,468,141	14,848,172
Disposals	–	(374,164)	(237,013)	–	(14,209,647)	(14,820,824)
Gains/(losses) recognised in profit or loss	23,797	(970)	2,576	–	–	25,403
(Losses)/gains recognised in other comprehensive income	–	–	–	(401,028)	10,810	(390,218)
At 31 December 2022	396,957	121,304	51,374	1,549,033	3,531,659	5,650,327
At 1 January 2023	396,957	121,304	51,374	1,549,033	3,531,659	5,650,327
Acquisitions	–	443,309	160,000	50,000	14,982,135	15,635,444
Disposals	–	(520,065)	(213,556)	–	(16,717,903)	(17,451,524)
Gains/(losses) recognised in profit or loss	24,227	(1,286)	2,182	–	–	25,123
(Losses)/gains recognised in other comprehensive income	–	–	–	(347,581)	9,013	(338,568)
At 31 December 2023	421,184	43,262	–	1,251,452	1,804,904	3,520,802

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(ii) Valuation inputs and relationships to fair value

Financial instruments	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Financial assets at FVPL				
- Unlisted equity investments	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; discount 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, and vice versa
- 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; discount 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, and vice versa
- Bills receivables				
		Net assets value approach	N/A	N/A
		Market approach	Price-to-book multiples; share price changes multiples; discount for lack of marketability	The higher the price-to-book multiples, the higher the fair value; the higher the share price changes multiples, the higher the fair value; the lower the discount rate, the higher the fair value, and vice versa

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(iii) Sensitivity analysis

The sensitivity analysis has been determined based on the change of rate of return in isolation used in the expected future cash flow that reflect the expected risk level of the financial assets at the end of 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 year ended 31 December 2023 would have increased/decreased by approximately RMB25,154 thousands (2022: approximately RMB37,528 thousands) as a result of the changes in fair value of the financial assets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

(a) Estimation of fair value of certain financial assets

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

(b) Expected credit loss for receivables

The impairment provision for receivables is based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward-looking estimates at the end of each of the reporting period. For details of the key assumptions and inputs used, see Note 2.10 and Note 3.1(b)(ii). Changes in these assumptions and estimates could materially affect the result of the assessment and may be necessary to make additional credit loss to the consolidated income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Net realisable value (“NRV”) of inventories

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

(d) Impairments for non-financial assets

The Group assesses whether there are any indicators of impairment of all non-financial assets, including property, plant and equipment, at the end of the reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use.

Certain property, plant and equipment are subject to impairment and impairment losses of RMB4,931,000(2022: RMB18,331,000) in respect of property, plant and equipment that have been provided during the year ended 31 December 2023. Details of the impairment of property, plant and equipment are disclosed in Note 14.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(f) Estimation of provision for warranty claims

The Group generally offers 60-66 months warranties for its mechanical transmission equipment. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. As at 31 December 2023, this particular provision had a carrying amount of RMB2,268,949 thousands (2022: RMB2,103,124 thousands).

(g) Current and deferred income taxes

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

(h) Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. As at 31 December 2023, the carrying value of deferred tax liabilities relating to withholding tax was approximately RMB49,087 thousands (2022: RMB49,087 thousands).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND OPERATING SEGMENT INFORMATION

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

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

- (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: 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 projects and engineering procurement construction projects.

Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from operations. The adjusted profit/loss before tax from operations is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, dividend income, fair value gains/losses from the Group's financial instruments, loss on disposal of an associate, gain on disposal of a subsidiary, loss on early redemption of other financial assets of amortised cost, foreign exchange gains/losses, share of results of associates 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 bank deposits, cash and cash equivalents, investments in associates, equity investments at fair value through profit or loss/other comprehensive income, other financial assets at amortised cost, certain other receivables and unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, written put option liability, tax payables, 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 CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND 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 year ended 31 December 2023					
Segment revenue					
Revenue from external customers	16,769,369	270,152	7,021,918	15,709	24,077,148
Timing of revenue recognition					
At a point in time	16,769,369	270,152	7,021,918	15,709	24,077,148
Segment results	1,554,480	38,022	52,003	(15,519)	1,628,986
<i>Reconciliation:</i>					
Finance costs – net (Note 10)					(640,473)
Dividend income (Note 6)					1,105
Interest income from other financial assets at amortised cost (Note 6)					5,254
Gain on disposal of a subsidiary (Note 7)					2,449
Loss on disposal of an associate (Note 7)					(8,087)
Loss on early redemption of other financial assets at amortised cost (Note 7)					(34,075)
Foreign exchange gains, net (Note 7)					77,800
Net fair value gains on financial assets at FVPL (Note 7)					25,123
Share of results of associates					(2,639)
Corporate and other unallocated expenses					(327,734)
Profit before income tax					727,709

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND 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	62,311	287	-	-	62,598
Net impairment losses (reversed)/ recognised on financial assets	(17,934)	(242)	6,445	(215)	(11,946)
Impairment losses on property, plant and equipment	4,931	-	-	-	4,931
Impairment losses on prepayments	2,323	-	-	-	2,323
Depreciation of property, plant and equipment and right-of-use assets	540,533	6,022	48	232	546,835
Capital expenditure	2,516,985	7,859	-	-	2,524,844
As at 31 December 2023					
Segment assets	21,534,601	522,040	4,673,793	1,328,032	28,058,466
Corporate and other unallocated assets					13,641,929
Total assets					41,700,395
Segment liabilities	12,308,451	134,050	172,883	479,453	13,094,837
Corporate and other unallocated liabilities					14,693,334
Total liabilities					27,788,171

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND 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 year ended 31 December 2022					
Segment revenue					
Revenue from external customers	15,320,850	378,880	5,346,027	33,897	21,079,654
Timing of revenue recognition					
At a point in time	15,320,850	378,880	5,346,027	33,897	21,079,654
Segment results	1,411,301	49,770	101,175	(28,476)	1,533,770
<i>Reconciliation:</i>					
Finance costs – net (Note 10)					(472,280)
Dividend income (Note 6)					3,005
Interest income from other financial assets at amortised cost (Note 6)					32,500
Interest income from deferred payment of consideration for partial disposal of a subsidiary (Note 6)					21,373
Foreign exchange gains, net (Note 7)					112,656
Net fair value gains on financial assets at FVPL (Note 7)					25,403
Share of results of associates					(83,849)
Corporate and other unallocated expenses					(128,988)
Profit before income tax					1,043,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND 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/(reversal of write-down) of inventories	217,789	(157)	-	-	217,632
Net impairment losses recognised on financial assets	99,711	8,790	2,244	16,166	126,911
Impairment losses on property, plant and equipment	18,331	-	-	-	18,331
Impairment losses on prepayments	237	-	-	-	237
Depreciation of property, plant and equipment and right-of-use assets	418,929	4,699	45	351	424,024
Capital expenditure	2,994,855	21,657	38	1	3,016,551
As at 31 December 2022					
Segment assets	21,938,046	480,179	3,470,051	1,264,434	27,152,710
Corporate and other unallocated assets					14,481,743
Total assets					41,634,453
Segment liabilities	14,477,988	163,057	290,962	281,503	15,213,510
Corporate and other unallocated liabilities					12,826,373
Total liabilities					28,039,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

(i) Revenue from external customers

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
PRC	21,828,992	19,289,455
USA	1,398,369	1,158,478
Europe	183,282	112,253
Other countries	666,505	519,468
	24,077,148	21,079,654

(ii) Non-current assets

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
PRC	9,564,860	7,742,775
USA	185,377	158,367
Europe	6,712	7,948
Other countries	179,267	143,533
	9,936,216	8,052,623

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND OPERATING SEGMENT INFORMATION *(Continued)*

(c) Information about major customers

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Customer A (Note)	2,775,039	2,598,435

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

6 OTHER INCOME

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Dividend income from financial assets at FVOCI and FVTPL	1,105	3,005
Interest income from other financial assets at amortised cost	5,254	32,500
Interest income from deferred payment of consideration for partial disposal of a subsidiary (Note)	–	21,373
Government grants		
– Deferred income recognised (Note 31)	39,500	17,218
– Other government subsidies	54,219	49,406
Sale of scraps and materials	89,293	63,713
Gross fixed rental income	3,468	4,663
Others	18,873	18,364
	211,712	210,242

Note:

The amount represented extension interest received from deferred payment of consideration for the Group's disposal of 43% equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd. (南京高速齒輪製造有限公司) ("Nanjing High Speed") during 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

7 OTHER GAINS – NET

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
(Losses)/gains on disposal of property, plant and equipment, net	(780)	1,123
Gain on disposal of a subsidiary (Note 42)	2,449	–
Loss on disposal of an associate (Note 18)	(8,087)	–
Loss on early redemption of other financial assets at amortised cost (Note 22)	(34,075)	–
Foreign exchange gains, net	77,800	112,656
Net fair value gains on financial assets at FVPL (Note 21(ii))	25,123	25,403
Impairment losses on property, plant and equipment (Note 14)	(4,931)	(18,331)
	57,499	120,851

8 EXPENSES BY NATURE

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Cost of inventories sold	18,976,570	16,217,534
Employee benefit expenses (Note 9)	1,984,982	1,722,118
Depreciation of property, plant and equipment	522,883	400,490
Depreciation of right-of-use assets (Note 15)	17,993	17,232
Auditor's remuneration		
– Audit services	3,638	3,902
– Non-audit services	1,494	2,887
Write-down of inventories (Note 24)	62,598	217,632
Other expenses	1,110,274	1,016,421
Total cost of sales, selling and distribution expenses, administrative expenses and research and development costs	22,680,432	19,598,216

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Wages and salaries	1,451,764	1,254,070
Pension scheme contributions	158,824	122,812
Other benefits	374,394	345,236
Total employee benefit expenses	1,984,982	1,722,118

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2022: five) directors whose emoluments are reflected in the analysis shown in Note 45.

10 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Finance income		
– Interest income from bank deposits	123,086	85,031
– Interest income from loans to third parties	–	31,503
	123,086	116,534
Finance costs		
– Interest expenses on bank and other borrowings	(509,536)	(390,527)
– Less: Interest capitalised	3,977	15,888
– Written put option liability: unwinding of discount (Note 34)	(258,000)	(214,175)
	(763,559)	(588,814)
Finance costs – net	(640,473)	(472,280)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11 INCOME TAX EXPENSES

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Current income tax – charge for the year		
– PRC	226,796	643,257
– Hong Kong	1,796	–
– USA	20,303	–
– Others	620	36
Over-provision in respect of prior years	(46,749)	(7,387)
	202,766	635,906
Deferred tax	(90,293)	(236,527)
Income tax expenses	112,473	399,379

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

	Year ended 31 December	
	2023	2022
	RMB'000	RMB'000
Profit before income tax	727,709	1,043,590
Tax calculated at statutory tax rate of 25%	181,927	260,897
Tax effect of:		
– Lower tax rate enacted by local authority or different tax rates of subsidiaries in other jurisdictions	(91,635)	(107,138)
– Share of results of associates	660	20,962
– Non-taxable income	(6,308)	(15,452)
– Non-deductible expenses	13,734	8,330
– Utilisation of previously unrecognised tax losses	(34,056)	(72,188)
– Tax losses for which no deferred tax assets was recognised	66,583	52,661
– Temporary differences for which no deferred income tax assets was recognised	116,900	4,952
– Additional deductions on research and development expenses	(90,147)	(55,027)
– Post acquisition profit of a partially disposed subsidiary	–	315,140
– Over-provision in respect of prior years	(46,749)	(7,387)
– Others	1,564	(6,371)
	112,473	399,379

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11 INCOME TAX EXPENSES *(Continued)*

(a) PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2022: 25%) on the taxable profits of the Group's PRC subsidiaries for the year ended 31 December 2023. The decrease in PRC corporate income tax as compared with that for the year ended 31 December 2022 is attributable to an one-off tax of RMB315,140,000 arising from the partial disposal of a subsidiary in March 2022.

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

Name of company	Year ended during which approval was obtained	Year ending during which approval will expire
Nanjing High Speed	31 December 2023	31 December 2025
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	31 December 2023	31 December 2025
Nanjing High Accurate Rail Transportation Equipment Co., Ltd. ("Rail Transportation")	31 December 2023	31 December 2025
NGC (Baotou) Transmission Equipment Co., Ltd. ("NGC Baotou")	31 December 2021	31 December 2023
Jiangsu Green Lighting Engineering Co., Ltd.	31 December 2021	31 December 2023

(b) Hong Kong Profits Tax

Hong Kong Profits Tax for the year ended 31 December 2023 has been provided under the two-tiered profits tax rates regime, the first HK\$2 million of the estimated assessable profits of the qualifying group entity is calculated at 8.25%, and the estimated assessable profits above HK\$2 million is calculated at 16.5%. No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from Hong Kong for the year ended 31 December 2022.

(c) Other corporate income tax

Other corporate income tax has been provided at the applicable rate of 8.5% to 25% (2022: 8.5% to 21%) on the estimated assessable profits arising from the jurisdictions at which the entities are operated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

12 EARNINGS PER SHARE

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

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Net profit attributable to owners of the Company	95,517	101,599
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	1,635,291	1,635,291
Basic earnings per share (RMB)	0.058	0.062

No adjustment is made to the diluted earnings per share for the year ended 31 December 2023 and 2022 as there were no potential dilutive share in issue.

13 DIVIDENDS

The directors did not recommend to declare any final dividend in respect of the year ended 31 December 2023 (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2022							
Cost	1,839,681	40,309	5,684,887	236,290	339,093	1,118,496	9,258,756
Accumulated depreciation	(501,406)	(25,621)	(3,644,809)	(168,122)	(231,279)	-	(4,571,237)
Impairment losses	-	-	(82,366)	(356)	-	(84,516)	(167,238)
Net book amount	1,338,275	14,688	1,957,712	67,812	107,814	1,033,980	4,520,281
For the year ended 31 December 2022							
Opening net book amount	1,338,275	14,688	1,957,712	67,812	107,814	1,033,980	4,520,281
Transferred from construction in progress	917,341	-	605,599	24,116	124,492	(1,671,548)	-
Other additions	-	290	25,660	25,865	1,384	2,942,546	2,995,745
Acquisition of a subsidiary	39,611	-	-	-	-	-	39,611
Depreciation	(65,141)	(4,291)	(284,990)	(20,816)	(32,213)	-	(407,451)
Disposals	-	-	(2,461)	(3,886)	(9,325)	(1,992)	(17,664)
Impairment losses provided during the year (Note 7)	-	-	(27,044)	-	-	8,713	(18,331)
Exchange differences	8,178	-	5,699	(2,038)	(18)	-	11,821
Closing net book amount	2,238,264	10,687	2,280,175	91,053	192,134	2,311,699	7,124,012
At 31 December 2022							
Cost	2,796,308	40,599	6,266,859	270,507	450,218	2,387,492	12,211,983
Accumulated depreciation	(558,044)	(29,912)	(3,878,757)	(179,098)	(258,084)	-	(4,903,895)
Impairment losses	-	-	(107,927)	(356)	-	(75,793)	(184,076)
Net book amount	2,238,264	10,687	2,280,175	91,053	192,134	2,311,699	7,124,012

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2023							
Cost	2,796,308	40,599	6,266,859	270,507	450,218	2,387,492	12,211,983
Accumulated depreciation	(558,044)	(29,912)	(3,878,757)	(179,098)	(258,084)	-	(4,903,895)
Impairment losses	-	-	(107,927)	(356)	-	(75,793)	(184,076)
Net book amount	2,238,264	10,687	2,280,175	91,053	192,134	2,311,699	7,124,012
For the year ended 31 December 2023							
Opening net book amount	2,238,264	10,687	2,280,175	91,053	192,134	2,311,699	7,124,012
Transferred from construction in progress	56,530	16,731	1,798,986	14,330	314,444	(2,201,021)	-
Other additions	-	447	45,311	10,597	50,232	2,362,432	2,469,019
Depreciation	(91,433)	(4,274)	(344,820)	(41,274)	(47,794)	-	(529,595)
Disposals	(55,517)	-	(10,170)	(1,646)	(4,961)	(1,589)	(73,883)
Impairment losses provided during the year (Note 7)	-	-	(7,306)	309	-	2,066	(4,931)
Exchange differences	3,161	-	(90)	750	26	97	3,944
Closing net book amount	2,151,005	23,591	3,762,086	74,119	504,081	2,473,684	8,988,566
At 31 December 2023							
Cost	2,798,162	57,777	8,059,012	282,630	809,694	2,547,411	14,554,686
Accumulated depreciation	(647,157)	(34,186)	(4,181,693)	(208,464)	(305,613)	-	(5,377,113)
Impairment losses	-	-	(115,233)	(47)	-	(73,727)	(189,007)
Net book amount	2,151,005	23,591	3,762,086	74,119	504,081	2,473,684	8,988,566

The Group is in the process of obtaining property certificates for the buildings above with a carrying amount of RMB479,134 thousands (2022: RMB499,517 thousands) at the end of the reporting period.

The freehold land is located in the USA.

During the year ended 31 December 2023, the Group conducted impairment assessment on recoverable amounts of certain property, plant and equipment for which the technical and economic performance were lower than expected. The recoverable amounts are estimated individually based on replacement cost basis. Based on the result of the assessment, the recoverable amounts were lower than the carrying amounts, impairment losses of RMB4,931 thousands (2022: RMB18,331 thousands) were recognised in "Other gains – net".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

15 RIGHT-OF-USE ASSETS

	Land use rights RMB'000
Carrying amount as at 1 January 2022	672,705
Additions	20,806
Depreciation charge for the year	(17,232)
Exchange differences	5
Carrying amount as at 31 December 2022	676,284
Additions	55,825
Depreciation charge for the year	(17,993)
Exchange differences	4,933
Carrying amount as at 31 December 2023	719,049

The land use rights are located in the PRC and Germany. At 31 December 2023, the Group is in the process of obtaining certain land use rights certificates with a carrying amount of RMB131,516 thousands (2022: RMB134,798 thousands).

16 GOODWILL

	RMB'000
At 1 January 2022, 31 December 2022 and 31 December 2023	
Cost	26,414
Accumulated impairment	-
Net carrying amount	26,414

Impairment testing of goodwill

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Lighting Engineering CGU (Note (a))	272	272
Wind Gear Transmission Equipment CGU (Note (b))	26,142	26,142
	26,414	26,414

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

16 GOODWILL *(Continued)*

(a) Lighting Engineering CGU

The recoverable amount of the lighting engineering CGU was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 10% (2022: 10%) and cash flows beyond the five-year period were extrapolated using a growth rate of 5% (2022: 5%), which was the same as the long-term average growth rate of the infrastructure industry.

(b) Wind Gear Transmission Equipment CGU

The recoverable amount of the wind gear transmission equipment CGU was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 12% (2022: 12%) and cash flows beyond the five-year period were extrapolated using a growth rate of 2% (2022: 2%), which was the same as the long-term average growth rate of the gear products industry.

Assumptions were used in the value-in-use calculation of the light engineering and wind gear transmission equipment CGU as at 31 December 2023 and 2022. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.
- Discount rate – The discount rate used is pre-tax and reflects specific risks relating to the unit.

Based on the assessments, no goodwill as at 31 December 2023 and 2022 was impaired and there was sufficient headroom available as at 31 December 2023 and 2022. A reasonably possible change in key assumptions would not cause the recoverable amount to fall below the carrying amount of the respective CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

17 SUBSIDIARIES

Particulars of major subsidiaries of the Group are as follows:

Name of company	Place and date of incorporation and operation	Paid-up capital	Percentage of equity held by the Group		Principal activities
			2023	2022	
Nanjing High Accurate [®]	PRC 16 August 2001	RMB693,800,000	50.02	50.02	Manufacture and sale of gear, gear box and fittings
Nanjing High Speed [®]	PRC 8 July 2003	RMB2,150,000,000	50.02	50.02	Manufacture and sale of gear, gear box and fittings
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive")*	PRC 27 March 2007	USD375,168,756	100	100	Investment holding, sale of gear box and fittings and trading business
China Transmission Holdings Limited	Hong Kong 7 November 2007	HKD100	100	100	Investment holding and sale of gear box and fittings
Nanjing Handa Import and Export Trading Co., Ltd. [®]	PRC 25 April 2012	RMB672,080,000	100	100	Trading business
Nanjing Gaote Gearbox Manufacturing Co., Ltd. [®]	PRC 26 November 2003	RMB305,227,932	50.02	50.02	Manufacture and sale of gear, gear box and fittings
Rail Transportation [®]	PRC 20 July 2011	RMB20,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Jiuyi Heavy Gearbox Manufacturing Co., Ltd. [®]	PRC 27 July 2011	RMB250,000,000	50.02	50.02	Manufacture and sale of gear, gear box and fittings
NGC Baotou [®]	PRC 7 January 2009	RMB260,000,000	50.02	50.02	Manufacture and sale of gear, gear box and fittings
Nanjing Shengzhuang Supply Chain Co., Ltd. [®]	PRC 8 November 2019	RMB1,000,000,000	100	100	Trading business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

17 SUBSIDIARIES

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

Name of company	Place and date of incorporation and operation	Paid-up capital	Percentage of equity held by the Group		Principal activities
			2023	2022	
High Speed Holdings Limited	Hong Kong 21 April 2020	USD100	50.02	50.02	Investment holding and sale of gear box and fittings
Nanjing Gear*	PRC 10 September 2021	USD285,475,244	100	100	Investment holding
NGC (Huai'an) High Speed Gear Manufacturing Co., Ltd.®	PRC 25 May 2022	RMB1,250,000,000	50.02	50.02	Manufacture and sale of gear, gear box and fittings

* Registered as wholly foreign owned enterprises under PRC law

@ Registered as domestic enterprises under PRC law

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

18 INVESTMENTS IN ASSOCIATES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Share of net assets	186,915	209,897
Goodwill on acquisition	6,710	6,710
Financial guarantee granted to an associate	34,782	35,526
Impairment	(32,110)	(32,110)
	196,297	220,023

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS IN ASSOCIATES *(Continued)*

Movements in the investments in associates are as follows:

	2023 RMB'000	2022 RMB'000
As at 1 January	220,023	223,783
Addition	–	80,089
Share of results for the year	(2,639)	(83,849)
Disposal (Note)	(21,087)	–
As at 31 December	196,297	220,023

Note:

On 21 June 2023, the Group entered into an agreement with two independent third parties to dispose of its 40% equity interest in an associate, Nanjing Langjin Technology Group Co., LTD, at a total cash consideration of RMB13,000 thousands, and resulted in a loss of RMB8,087 thousands.

Principal activities of material associates as at 31 December 2023 and 2022 are as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Principal activity	Measurement method
		2023	2022		
Zhongbang Finance Leasing (Jiangsu) Co., Ltd. ("Zhongbang Finance Leasing")	PRC	37.21	37.21	Finance leasing	Equity method
Hainan Kaibang Real Estate Development Co., LTD ("Hainan Kaibang")	PRC	33.69	33.69	Property management	Equity method

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised financial information for material associates

Zhongbang Finance Leasing

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current assets	21,367	10,416
Non-current assets	279,142	279,112
Current liabilities	(26,536)	(15,165)
Net assets	273,973	274,363
Percentage of ownership interest	37.21%	37.21%
Carrying value of the investment	101,945	102,090

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue	-	-
Loss for the year	(390)	(2,436)
Total comprehensive loss for the year	(390)	(2,436)
Dividends declared by the associate	-	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS IN ASSOCIATES *(Continued)*

Summarised financial information for material associates *(Continued)*

Hainan Kaibang

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Current assets	158,976	158,974
Non-current assets	79,659	79,660
Current liabilities	(1,476)	(1,099)
Net assets	237,159	237,535
Percentage of ownership interest	33.69%	33.69%
Carrying value of the investment	79,899	80,025

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Revenue	–	–
Loss for the year	(376)	(189)
Total comprehensive loss for the year	(376)	(189)
Dividends declared by the associate	–	–

Summarised financial information for other associates

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

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Aggregate carrying value of investments	14,453	37,914
Aggregate amounts of the Group's share of:		
– Loss for the year	(2,368)	(5,286)
– Total comprehensive loss for the year	(2,368)	(5,286)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

19 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

	Note	As at 31 December	
		2023 RMB'000	2022 RMB'000
Financial assets			
Financial assets at amortised cost			
– Trade receivables	25	8,489,248	7,090,581
– Other receivables	25	1,043,809	1,092,041
– Other financial assets at amortised cost	22	–	641,421
– Pledged bank deposits	27	3,562,398	4,897,224
– Cash and cash equivalents	27	5,627,891	4,383,517
Financial assets at FVOCI	20	3,095,331	5,144,754
Financial assets at FVPL	21	464,446	569,635
		22,283,123	23,819,173
Financial liabilities			
Financial liabilities at amortised cost			
– Trade, bills and other payables	28	8,187,788	10,964,883
– Borrowings	29	9,494,585	7,842,584
– Written put option liability	34	4,772,175	4,514,175
		22,454,548	23,321,642

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Classification of financial assets at FVOCI

Financial assets measured at FVOCI comprise:

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Non-current assets		
Listed equity investments (Note (ii)(a))	38,975	64,062
Unlisted equity investments (Note (ii)(b))	1,251,452	1,549,033
	1,290,427	1,613,095
Current assets		
Debt investments – bills receivables (Note (iii))	1,804,904	3,531,659
	3,095,331	5,144,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

(ii) Equity investments at FVOCI

(a) Listed equity investments

Listed equity investments comprise the following individual investments:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Riyue Heavy Industry Co., Ltd.	10,306	16,914
China PengFei Group Limited	–	17,808
Sany Renewable Energy Co., Ltd	28,669	29,340
	38,975	64,062

During the year ended 31 December 2023, the Group disposed all of its shares of China PengFei Group Limited. The shares were disposed at a consideration of RMB18,710 thousands and the Group realised a loss of RMB8,288 thousands, which was included in other comprehensive income and transferred to retained earnings.

(b) Unlisted equity investments

Unlisted equity investments comprise the following individual investments:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Zhejiang Zheshang Chanrong Equity Investment Fund L.P. (Note)	1,239,000	1,541,019
Others	12,452	8,014
	1,251,452	1,549,033

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

(ii) Equity investments at FVOCI *(Continued)*

(b) Unlisted equity investments *(Continued)*

Note:

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

As at 31 December 2023, the investment in Zhejiang Zheshang Chanrong had a fair value of RMB1,239,000 thousands (2022: RMB1,541,019 thousands) and a fair value loss of RMB302,019 thousands (2022: fair value loss of RMB401,412 thousands) was recognised in other comprehensive income for the year ended 31 December 2023. The fair value of Zhejiang Zheshang Chanrong was revalued on 31 December 2023 and 2022 based on market approach and net asset value approach performed by the independent professional qualified valuer respectively.

(iii) Debt investments – bills receivables

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

For the year ended 31 December 2023, fair value gain of RMB9,013 thousands (2022: fair value gain of RMB10,810 thousands) for bills receivables measured at FVOCI are recognised in other comprehensive income.

(iv) Transfers of financial assets

The following were the Group’s bills receivables accepted by banks in the PRC (the “Endorsed Bills”) that were endorsed to certain of the Group’s suppliers in order to settle the trade payables due to such suppliers. In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

(iv) Transfers of financial assets *(Continued)*

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

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Carrying amount of transferred assets	150,488	315,500
Carrying amount of associated liabilities	(150,488)	(315,500)

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

For the years ended 31 December 2023 and 2022, the following (losses)/gains were recognised in profit or loss and other comprehensive income:

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Losses recognised in other comprehensive income	(344,943)	(376,787)
Dividends from equity investments held at FVOCI recognised in profit or loss in other income	996	3,005

(vi) Current assets pledged as securities

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

(vii) Fair value, impairment and risk exposure

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

The Group classifies the following financial assets at FVPL:

- Debt investments that do not qualify for measurement at either amortised cost (Note 22 and Note 25) or FVOCI (Note 20);
- Equity investments that are held for trading; and
- Equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets measured at FVPL include the following:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Non-current asset		
Unlisted equity investments (Note (a))	411,400	387,600
Current assets		
Structured bank deposits (Note (b))	–	51,374
Trade receivables measured at FVPL (Note (c))	43,262	121,304
Unlisted equity investments	9,784	9,357
	53,046	182,035
	464,446	569,635

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

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

Notes:

(a) Unlisted equity investments

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

As at 31 December 2023, the investment in Ningbo Nangao Jingchuan, Ningbo Gaona Jingte and Ningbo Gaotai Jingli had a fair value of RMB145,200 thousands, RMB145,200 thousands and RMB121,000 thousands (2022: RMB136,800 thousands, RMB136,800 thousands and RMB114,000 thousands) respectively, and an aggregate fair value gain of RMB23,800 thousands (2022: RMB23,800 thousands) was recognised in profit or loss during the year ended 31 December 2023.

(b) Structured bank deposits

As at 31 December 2022, structured bank deposits of RMB51,374 thousands represented financial instruments placed by the Group to a bank in the PRC for a term within one year. The contract guarantees principal and proceeds are related to the performance of exchange rate, interest rate or stock index on the market. For the year ended 31 December 2023, fair value gains of RMB2,182 thousands (2022: RMB2,576 thousands) for structured bank deposits were recognised in “Other gains – net”.

(c) Trade receivables measured at FVPL

In 2021 and 2022, the Group entered into several agreements with a bank to sell all of its eligible trade receivables under certain customers and all rights, title, interest and benefit the Group has in each such eligible trade receivables on a non-recourse basis without the need for any further action or documentation on the part of the Group or the bank, at a discount calculated based on the base rate and number of days for early payment as specified in the agreements.

As at 31 December 2023, such trade receivables held solely for selling purpose amounting to RMB43,262 thousands (2022: RMB121,304 thousands) were classified as financial assets at FVPL. For the year ended 31 December 2023, fair value losses of RMB1,286 thousands (2022: RMB970 thousands) for trade receivables measured at FVPL are recognised in “Other gains – net”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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

(ii) Amounts recognised in profit or loss

For the years ended 31 December 2023 and 2022, the following were recognised in profit or loss:

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Fair value gains on equity investments at FVPL recognised in other gains – net (Note 7)	24,227	23,797
Fair value gains on debt investments at FVPL recognised in other gains – net (Note 7)	896	1,606
	25,123	25,403

(iii) Fair value measurements and exposure

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

22 OTHER FINANCIAL ASSETS AT AMORTISED COST

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Insurance investment (Note)	–	641,421

Note:

As at 31 December 2022, the balance represented advances made to an insurance company in the PRC with a principal of RMB500,000 thousands and 5-year maturity in June 2023, which carried fixed interest rate at 6.50% per annum. Interest and the principal amount are repayable at the maturity date.

In February 2023, the Group submitted an early redemption request to the insurance company to redeem all the entire insurance investments and the request has been accepted. At the redemption date, the cash value of the insurance investments of RMB612,600 thousands (after deduction of early encashment charge and management fee) was recognised in other receivables, and an early redemption loss of RMB34,075 thousands was recognised in other losses.

In November 2023, the Group initiated a legal proceeding against the insurance company at Nanjing Intermediate People's Court to enforce the insurance company's repayment obligation as the amount due is not yet received by the Group. As at the date of this report, the case is still on going, currently under the second trial of the jurisdiction issue. Based on the opinion of the legal counsel representing the Group in this case, it is expected that it is highly probable that the Group will succeed in the legal proceeding. The board of directors does not expect this legal proceeding would have any material adverse impact on the business operations and the financial position of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

23 DEPOSITS FOR LAND LEASES

The amount represents partial deposits for land leases paid in relation to the acquisition of land use rights and the transfer is subject to the approval of the local government.

24 INVENTORIES

	As at 31 December	
	2023	2022
	RMB'000	RMB'000
Raw materials	825,526	979,155
Work in progress	2,677,781	3,712,196
Finished goods	3,041,544	2,237,250
	6,544,851	6,928,601

During the year ended 31 December 2023, the cost of inventories recognised as expense amounted to RMB20,619,765 thousands (2022: RMB17,598,790 thousands) which was included in “cost of sales”.

During the year ended 31 December 2023, write-down of inventories to net realisable value amounted to RMB62,598 thousands (2022: RMB217,632 thousands) which was recognised and included in “cost of sales”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

25 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade receivables		
– Amounts due from third parties	9,139,274	7,761,041
Less: Loss allowances	(650,026)	(670,460)
	8,489,248	7,090,581
Other receivables		
– Value-added tax recoverable	392,900	221,855
– Loans to third parties	317,838	632,208
– Amounts due from associates	45,951	45,951
– Amounts due from former subsidiaries	515,854	513,755
– Amounts due from third parties	935,551	367,504
	2,208,094	1,781,273
Less: Loss allowances	(771,385)	(467,377)
	1,436,709	1,313,896
	9,925,957	8,404,477

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

25 TRADE AND OTHER RECEIVABLES *(Continued)*

(i) Fair values of trade and other receivables

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

(ii) Impairment and risk exposure

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

Information about the Group's exposure to financial risk factors of trade and other receivables are disclosed in Note 3.1.

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Less than 90 days	6,858,350	5,905,783
90 to 180 days	884,920	415,828
181 to 365 days	345,451	412,200
1 to 2 years	270,275	265,114
Over 2 years	130,252	91,656
	8,489,248	7,090,581

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

26 PREPAYMENTS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Prepayments		
– Amounts due from third parties	1,653,221	1,904,344
– Amounts due from associates	–	6,973
Less: Impairment provision	(56,285)	(55,681)
	1,596,936	1,855,636

27 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Cash at banks and on hand	9,190,289	9,280,741
Less: Pledged bank deposits	(3,562,398)	(4,897,224)
Cash and cash equivalents	5,627,891	4,383,517

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

28 TRADE, BILLS AND OTHER PAYABLES

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Trade payables		
– Amounts due to third parties	3,395,996	4,148,611
– Amount due to an associate	18	18
	3,396,014	4,148,629
Bills payables	3,950,352	5,916,252
	7,346,366	10,064,881
Other payables		
– Accruals	262,169	135,996
– Other tax payables	44,295	44,539
– Purchase of property, plant and equipment	550,474	522,501
– Payroll and welfare payables	245,886	229,189
– Financial guarantee liabilities	2,672	3,417
– Amount due to an associate	15,000	15,000
– Amounts due to third parties	273,276	359,084
	1,393,772	1,309,726
	8,740,138	11,374,607

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 TRADE, BILLS AND OTHER PAYABLES (Continued)

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
0 to 30 days	3,295,868	4,522,861
31 to 60 days	675,370	948,427
61 to 180 days	2,864,605	2,678,443
181 to 365 days	422,813	1,834,680
Over 365 days	87,710	80,470
	7,346,366	10,064,881

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

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

29 BORROWINGS

	As at 31 December			
	2023		2022	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Current				
Bank loans – Unsecured	3.00-4.65	4,501,000	3.50-4.79	4,257,412
Bank loans – Secured	3.18-4.75	135,621	N/A	–
Loans from other financial institution – Secured	7.61	400,000	7.61	400,000
		5,036,621		4,657,412
Non-current				
Bank loans – Unsecured	3.08-4.53	1,052,032	4.53-4.55	849,756
Bank loans – Secured	3.18-4.75	3,405,932	3.10-5.03	2,335,416
		4,457,964		3,185,172
		9,494,585		7,842,584

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

29 BORROWINGS *(Continued)*

Bank and other borrowings are repayable as follows:

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Within one year	5,036,621	4,657,412
Between one and two years	1,785,867	882,578
Between two and five years	1,479,027	1,250,025
Over five years	1,193,070	1,052,569
	9,494,585	7,842,584

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Fixed-rate borrowings	4,432,000	4,762,412

All the Group's borrowings were denominated in RMB as at 31 December 2023. As at 31 December 2022, the Group's borrowing denominated in currencies other than RMB was USD2,500 thousands, which was equivalent to RMB17,412 thousands.

The secured borrowings were secured by pledge of assets, details of which are set out in Note 41. In addition, as at 31 December 2023 and 2022, the secured non-current bank loans were secured by the Group's 100% equity interests in NGC (Huai'an) High Speed Gear Manufacturing Co., Ltd.

30 CONTRACT LIABILITIES

It represented deposits received in advance for made-to-order manufacturing arrangement on acceptance of manufacturing orders. The sum of deposits received are based on negotiation on a case by case basis with customers.

Amount of RMB933,028 thousands (2022: RMB712,079 thousands) was recognised as revenue during the year ended 31 December 2023, which was included in contract liabilities at the beginning of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

31 DEFERRED INCOME

	2023 RMB'000	2022 RMB'000
At 1 January	321,572	212,961
Government grants received during the year	236,017	125,829
Recognised in profit or loss (Note 6)	(39,500)	(17,218)
At 31 December	518,089	321,572
Represented		
– Current portion	42,925	18,495
– Non-current portion	475,164	303,077
	518,089	321,572

As at the end of the reporting period, the amount represented the grants received from the PRC government for the Group's acquisition of assets for technology development, and such amount will be released to income over the useful lives of the relevant assets.

32 WARRANTY PROVISION

	2023 RMB'000	2022 RMB'000
At 1 January	2,103,124	1,712,034
Additional provision recognised during the year	619,967	650,924
Amounts utilised during the year	(454,142)	(259,834)
At 31 December	2,268,949	2,103,124
Represented		
– Current portion	1,144,479	988,395
– Non-current portion	1,124,470	1,114,729
	2,268,949	2,103,124

At the end of the reporting period, the amount represents the directors' best estimate of the expected cost that will be required under the Group's obligations for warranties under sale of goods. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33 DEFERRED INCOME TAX

The following are the deferred tax assets/(liabilities) recognised and movements thereon during the current and prior years:

Deferred income tax assets	Impairment of receivables RMB'000	Write- down of inventories RMB'000	Fair value change on financial assets at FVOCI RMB'000	Provisions RMB'000	Deferred income RMB'000	Unwinding discount on put option upon partial disposal of a subsidiary RMB'000	Unrealised profits on intra-group transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022	22,700	36,826	19,392	251,285	12,316	-	11,288	25,131	378,938
Credited to profit or loss	17,947	8,603	-	58,885	11,995	53,544	45,876	53,523	250,373
Credited/(charged) to other comprehensive income	-	-	100,362	-	-	-	-	(779)	99,583
At 31 December 2022	40,647	45,429	119,754	310,170	24,311	53,544	57,164	77,875	728,894
Credited/(charged) to profit or loss	25,939	(11,162)	-	32,413	(738)	64,500	9,550	(18,881)	101,621
Credited/(charged) to other comprehensive income	-	-	76,496	-	-	-	-	(1,517)	74,979
At 31 December 2023	66,586	34,267	196,250	342,583	23,573	118,044	66,714	57,477	905,494

Deferred income tax liabilities	Changes in fair value of identified assets upon acquisition of subsidiaries RMB'000	Withholding taxes RMB'000	Fair value changes on financial assets at FVOCI and FVPL RMB'000	Others RMB'000	Total RMB'000
At 1 January 2022	(17,734)	(49,087)	(7,522)	(27,232)	(101,575)
Credited/(charged) to profit or loss	1,365	-	(7,086)	(8,125)	(13,846)
Credited to other comprehensive income	-	-	1,572	-	1,572
Acquisition of a subsidiary	(1,733)	-	-	-	(1,733)
At 31 December 2022	(18,102)	(49,087)	(13,036)	(35,357)	(115,582)
Credited/(charged) to profit or loss	2,065	-	(4,814)	(8,579)	(11,328)
At 31 December 2023	(16,037)	(49,087)	(17,850)	(43,936)	(126,910)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

33 DEFERRED INCOME TAX *(Continued)*

Deferred tax assets not recognised

As at 31 December 2023, the Group has unused tax losses of RMB560,922 thousands (2022: RMB537,001 thousands) available for offset against future profits, no deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses arising in the PRC can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. The unused tax losses arising in HK and other countries may be carried forward indefinitely.

As at 31 December 2023, no deferred tax asset has been recognised in relation to deductible temporary differences of RMB1,407,685 thousands (2022: RMB1,381,164 thousands) as it is not probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to 5% withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. The aggregate amount of temporary differences associated with unremitted earnings of RMB9,758 million (2022: RMB9,031 million) of investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised amounted to approximately RMB488 million as at 31 December 2023 (2022: RMB452 million), in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

34 WRITTEN PUT OPTION LIABILITY

On 30 March 2021, Nanjing Gear Enterprise Management Co., Ltd. (the “Vendor”), a wholly-owned subsidiary of the Group, and Nanjing High Speed entered into an equity transfer agreement (the “Equity Transfer Agreement”) with Shanghai Wensheng Asset Management Co., Ltd., 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”). The Disposal has been completed on 4 March 2022.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

34 WRITTEN PUT OPTION LIABILITY *(Continued)*

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

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

	RMB'000
At 1 January 2022	–
Issuance of written put option	4,300,000
Unwinding of discount (Note 10)	214,175
At 31 December 2022	4,514,175
Unwinding of discount (Note 10)	258,000
At 31 December 2023	4,772,175

35 SHARE CAPITAL

	Number of ordinary shares '000	Equivalent nominal value of ordinary shares RMB'000
At 1 January 2022, 31 December 2022 and 31 December 2023	1,635,291	119,218

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The par value of ordinary share is USD0.01 each.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

36 RESERVES

	Share premium	Deemed capital contribution reserve	Statutory surplus reserve	Capital reserve	Fair value reserve of financial assets at FVOCI	Share-based payment reserve	Exchange reserve	Other reserve	Total in other reserves	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2022	3,705,495	77,651	1,036,319	(80,661)	(147,907)	547,674	(44,725)	52,335	5,146,181	8,133,796	13,279,977
Profit for the year	-	-	-	-	-	-	-	-	-	101,599	101,599
Other comprehensive loss for the year:											
- Changes in fair value of financial assets at FVOCI, net of tax	-	-	-	-	(277,453)	-	-	-	(277,453)	-	(277,453)
- Exchange differences	-	-	-	-	-	-	(18,380)	-	(18,380)	-	(18,380)
Total comprehensive (loss)/ income for the year	-	-	-	-	(277,453)	-	(18,380)	-	(295,833)	101,599	(194,234)
Transfer of fair value reserve upon disposal of financial assets at FVOCI	-	-	-	-	41,147	-	-	-	41,147	(41,147)	-
Partial disposal of interest in a subsidiary without loss of control	-	-	-	(2,729,010)	-	-	-	-	(2,729,010)	-	(2,729,010)
Appropriation to statutory reserve	-	-	414,597	-	-	-	-	-	414,597	(414,597)	-
Balance at 31 December 2022	3,705,495	77,651	1,450,916	(2,809,671)	(384,213)	547,674	(63,105)	52,335	2,577,082	7,779,651	10,356,733

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

36 RESERVES *(Continued)*

	Share premium	Deemed capital contribution reserve	Statutory surplus reserve	Capital reserve	Fair value reserve of financial assets at FVOCI	Share-based payment reserve	Exchange reserve	Other reserve	Total in other reserves	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2023	3,705,495	77,651	1,450,916	(2,809,671)	(384,213)	547,674	(63,105)	52,335	2,577,082	7,779,651	10,356,733
Profit for the year	-	-	-	-	-	-	-	-	-	95,517	95,517
Other comprehensive loss for the year:											
- Changes in fair value of financial assets at FVOCI, net of tax	-	-	-	-	(270,540)	-	-	-	(270,540)	-	(270,540)
- Exchange differences	-	-	-	-	-	-	(27,618)	-	(27,618)	-	(27,618)
Total comprehensive (loss)/ income for the year	-	-	-	-	(270,540)	-	(27,618)	-	(298,158)	95,517	(202,641)
Transfer of fair value reserve upon disposal of financial assets at FVOCI	-	-	-	-	8,288	-	-	-	8,288	(8,288)	-
Appropriation to statutory reserve	-	-	77,150	-	-	-	-	-	77,150	(77,150)	-
Balance at 31 December 2023	3,705,495	77,651	1,528,066	(2,809,671)	(646,465)	547,674	(90,723)	52,335	2,364,362	7,789,730	10,154,092

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 66 of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

36 RESERVES *(Continued)*

(a) Share premium

The share premium represents the excess of the proceeds received upon issuance and allotment of the Company's shares over their nominal values.

(b) Deemed capital contribution reserve

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

(c) Statutory surplus reserve

In accordance with the PRC Company Law and the PRC subsidiaries' Articles of Association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit as determined in accordance with relevant statutory rules and regulations applicable to enterprises established in the PRC (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

(d) Capital reserve

The capital reserve represents (i) the difference between the consideration given and the proportionate share of the carrying amount of net assets of subsidiaries attributable to non-controlling interests upon acquisition of additional interests in subsidiaries, (ii) the difference between the consideration received and the proportionate share of the carrying amount of net assets of subsidiaries attributable to non-controlling interests upon disposal/deemed disposal of partial interests in subsidiaries without loss of control, and (iii) the initial recognition of written put option liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

36 RESERVES *(Continued)*

(e) Fair value reserve of financial assets at FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity securities in other comprehensive income (see Note 20). These changes are accumulated in the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

The Group also has certain debt investments measured at FVOCI (see Note 20). For these investments, changes in fair value are accumulated in the FVOCI reserve within equity. The accumulated changes in fair value are transferred to profit or loss when the investment is derecognised or impaired.

(f) Share-based payment reserve

It represented the difference between the consideration given for the capital increase to Nanjing High Speed in 2020 by certain of the core employees of the Group in exchange of 6.98% equity interest of Nanjing High Speed and the corresponding fair value of Nanjing High Speed.

(g) Exchange reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 2.6 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(h) Other reserve

Other reserve represents the net assets of Nanjing High Accurate, which was contributed to the Group by the founder shareholders of Nanjing High Accurate when the founder shareholders obtained control of Nanjing High Accurate as well as the subsequent acquisition of additional equity interest in Nanjing High Accurate and contributed to the Group by the founder shareholders of Nanjing High Accurate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

37 SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2023 RMB'000	2022 RMB'000
Percentage of equity interest held by non-controlling interests:		
Nanjing High Speed	49.98%	49.98%
Accumulated balances of non-controlling interests at the end of the reporting period:		
Nanjing High Speed	3,640,057	3,115,256
Total comprehensive income for the year allocated to non-controlling interests:		
Nanjing High Speed	524,801	554,515

The following table illustrates the summarised financial information of the above subsidiary.

Nanjing High Speed	2023 RMB'000	2022 RMB'000
Revenue	16,740,867	15,319,282
Total expenses	(15,392,965)	(13,951,392)
Profit for the year	1,048,938	1,153,793
Total comprehensive income for the year	1,022,143	1,135,425
Net cash flows generated from operating activities	1,629,266	1,916,455
Net cash flows used in investing activities	(648,422)	(5,277,960)
Net cash flows generated from financing activities	733,541	4,331,060
Net increase in cash and cash equivalents	1,714,385	969,555
Current assets	19,917,634	21,797,503
Non-current assets	10,054,026	8,076,569
Current liabilities	16,628,241	19,012,443
Non-current liabilities	6,089,420	4,629,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

38 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before income tax to cash generated from/(used in) operations:

	Note	Year ended 31 December	
		2023 RMB'000	2022 RMB'000
Profit before income tax		727,709	1,043,590
Adjustments for:			
– Finance costs	10	763,559	588,814
– Finance income	10	(123,086)	(116,534)
– Interest income from other financial assets at amortised cost	6	(5,254)	(32,500)
– Loss on early redemption of other financial assets at amortised cost	7	34,075	–
– Interest income from deferred payment of consideration for partial disposal of a subsidiary	6	–	(21,373)
– Dividend income	6	(1,105)	(3,005)
– Share of results of associates	18	2,639	83,849
– Losses/(gains) on disposal of property, plant and equipment, net	7	780	(1,123)
– Gain on disposal of a subsidiary	7	(2,449)	–
– Loss on disposal of an associate	7	8,087	–
– Net fair value gains on financial assets at FVPL	7	(25,123)	(25,403)
– Depreciation of property, plant and equipment	14	529,595	407,451
– Depreciation of right-of-use assets	15	17,993	17,232
– Impairment losses on property, plant and equipment	7	4,931	18,331
– Write-down of inventories	8	62,598	217,632
– (Reversal of)/provision for impairment losses on trade receivables	3.1(b)	(9,070)	119,450
– Impairment losses on other receivables	3.1(b)	304,176	93,362
– Impairment losses on prepayments		2,323	237
– Unrealised exchange gains, net		(17,915)	(77,553)
– Deferred income on financial guarantee		(745)	(2,942)
– Release of deferred income	6	(39,500)	(17,218)
Operating profit before changes in working capital		2,234,218	2,292,297

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

38 CASH GENERATED FROM OPERATIONS *(Continued)*

Reconciliation of profit before income tax to cash generated from/(used in) operations: *(Continued)*

	Year ended 31 December	
	2023 RMB'000	2022 RMB'000
Changes in working capital:		
– Decrease/(increase) in inventories	321,152	(1,939,314)
– Decrease/(increase) in trade receivables	385,295	(3,007,782)
– Increase in other receivables	(202,824)	(109,530)
– Decrease/(increase) in prepayments	256,377	(608,920)
– (Decrease)/increase in trade and bills payables	(2,718,515)	3,467,077
– Increase in contract liabilities	220,884	684,269
– Increase in other payables and accruals	27,404	56,412
– Increase in warranty provision	165,825	391,090
Cash generated from operations	689,816	1,225,599

(a) Net debt reconciliation

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Cash and cash equivalents (Note 27)	5,627,891	4,383,517
Borrowings (Note 29)	(9,494,585)	(7,842,584)
Net debt	(3,866,694)	(3,459,067)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

38 CASH GENERATED FROM OPERATIONS *(Continued)*

(a) Net debt reconciliation *(Continued)*

	Cash	Liabilities from financing activities			
		Borrowings due within 1 year	Borrowings due after 1 year	Sub-total	Total
At 1 January 2022	3,284,166	(3,998,099)	–	(3,998,099)	(713,933)
Cash flows	1,021,798	(659,313)	(3,185,172)	(3,844,485)	(2,822,687)
Exchange differences	77,553	–	–	–	77,553
At 31 December 2022	4,383,517	(4,657,412)	(3,185,172)	(7,842,584)	(3,459,067)
Cash flows	1,226,459	(379,209)	(1,272,792)	(1,652,001)	(425,542)
Exchange differences	17,915	–	–	–	17,915
At 31 December 2023	5,627,891	(5,036,621)	(4,457,964)	(9,494,585)	(3,866,694)

39 CONTINGENT LIABILITIES

Financial guarantees

As at 31 December 2023, the Group issued a financial guarantee to a bank in respect of a bank loan of RMB24,024 thousands (2022: RMB40,020 thousands) granted to an associate. This amount represented the balance that the Group could be required to be paid if the guarantee was called upon in its entirety. At the end of the reporting period, an amount of RMB2,672 thousands (2022: RMB3,417 thousands) has been recognised in the consolidated statement of financial position as liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

40 CAPITAL COMMITMENTS

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	1,853,478	3,117,804

41 ASSETS PLEDGED AS SECURITIES

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

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Bills receivables	294,458	1,034,234
Trade receivables	398,794	398,826
Property, plant and equipment	2,495,485	1,281,047
Land use rights	342,352	269,570
Pledged bank deposits	3,562,398	4,897,224
	7,093,487	7,880,901

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

42 DISPOSAL OF A SUBSIDIARY

In October 2023, Nanjing Drive entered into an agreement with an independent third party to dispose of its 100% equity interest in Shanghai Faske Energy Technology Co., Ltd. (“Shanghai Faske”) at a total cash consideration of RMB1,000 thousands.

The net liabilities of Shanghai Faske at the date of disposal and the resulting gain on disposal recognised were as follows:

	RMB'000
Trade receivables	1,068
Other receivables	2,367
Cash and cash equivalents	1,000
Other payables	(5,884)
Net liabilities disposed of	(1,449)
Gain on disposal	2,449
Total consideration	1,000
Satisfied by cash	1,000

An analysis of the net cash flow in respect of the disposal of a subsidiary is as follows:

	RMB'000
Cash consideration received	1,000
Cash and cash equivalents disposed of	1,000
Net cash flow in respect of disposal of a subsidiary	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43 RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these consolidated statements, the Group has no significant transactions with related parties during the year.

(b) Other transactions with related parties:

As at 31 December 2023, the Group provided financial guarantees to Nanjing Gaochuan Mechanical and Electrical Automatic Control Equipment Co., Ltd., an associate of the Group, and its subsidiaries (collectively referred to as “Nanjing Gaochuan”) in favour of Nanjing Gaochuan’s bank loans of RMB24,024 thousands (2022: RMB40,020 thousands).

(c) Outstanding balances with related parties:

The Group’s trade and other balances with its associates and other related party as at the end of the reporting period are disclosed in Notes 25, 26 and 28 to the consolidated financial statements.

(d) Compensation of key management personnel of the Group:

Other than the emoluments paid to the directors of the Company, who are also considered as the key management of the Group as set out in Note 45, the Group did not have any other significant compensation to key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

44 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2023 RMB'000	2022 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	7	13
Interests in subsidiaries	4,025,881	4,015,703
Financial assets at FVOCI	–	17,808
	4,025,888	4,033,524
Current assets		
Other receivables	216	213
Cash and cash equivalents	40,962	48,315
	41,178	48,528
Total assets	4,067,066	4,082,052
Liabilities		
Current liabilities		
Amounts due to subsidiaries	6,180	6,077
Other payables	316	1,316
Total liabilities	6,496	7,393
Equity attributable to owners of the Company		
Share capital	119,218	119,218
Reserves (Note (a))	3,941,352	3,955,441
Total equity	4,060,570	4,074,659
Total equity and liabilities	4,067,066	4,082,052

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

44 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Reserve movement of the Company

	Share premium RMB'000	Deemed contribution capital reserve RMB'000	Fair value reserve of financial assets at FVOCI RMB'000	(Accumulated losses)/ retained earnings RMB'000	Total RMB'000
At 1 January 2022	3,705,495	77,651	(11,762)	(53,350)	3,718,034
Profit for the year	-	-	-	212,776	212,776
Other comprehensive income for the year:	-	-	-	-	-
- Change in fair value of financial assets at FVOCI, net of tax	-	-	24,631	-	24,631
- Transfer of fair value reserve upon disposal of financial assets at FVOCI	-	-	41,147	(41,147)	-
At 31 December 2022	3,705,495	77,651	54,016	118,279	3,955,441
Profit for the year	-	-	-	48,215	48,215
Other comprehensive income for the year:	-	-	-	-	-
- Change in fair value of financial assets at FVOCI, net of tax	-	-	(62,304)	-	(62,304)
- Transfer of fair value reserve upon disposal of financial assets at FVOCI	-	-	8,288	(8,288)	-
At 31 December 2023	3,705,495	77,651	-	158,206	3,941,352

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

45 BENEFITS AND INTERESTS OF DIRECTORS

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

The remuneration of every director and chief executive is set out below:

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended				
31 December 2023				
Executive Directors				
Mr. Hu Jichun (chief executive)	–	2,697	53	2,750
Mr. Hu Yueming	–	3,450	–	3,450
Mr. Chen Yongdao	–	3,097	53	3,150
Mr. Wang Zhengbing (Note)	–	577	18	595
Mr. Zhou Zhijin	–	2,697	53	2,750
Ms. Zheng Qing	216	–	–	216
Mr. Gu Xiaobin	–	5,447	53	5,500
Mr. Fang Jian	–	1,947	53	2,000
Independent non-executive directors				
Mr. Jiang Xihe	216	–	–	216
Ms. Jiang Jianhua	216	–	–	216
Dr. Chan Yau Ching	216	–	–	216
Mr. Nathan Yu Li	216	–	–	216
	1,080	19,912	283	21,275

Note:

Mr. Wang Zhengbing resigned as an executive director of the company on 28 May 2023. His remuneration was RMB595,000 (2022:RMB2,750,000) for the year ended 31 December 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

45 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended				
31 December 2022				
Executive Directors				
Mr. Hu Jichun (chief executive)	–	2,397	53	2,450
Mr. Hu Yueming	–	3,450	–	3,450
Mr. Chen Yongdao	–	3,097	53	3,150
Mr. Wang Zhengbing	–	2,697	53	2,750
Mr. Zhou Zhijin	–	2,697	53	2,750
Ms. Zheng Qing	214	–	–	214
Mr. Gu Xiaobin	–	5,447	53	5,500
Mr. Fang Jian	–	1,947	53	2,000
Independent non-executive directors				
Mr. Jiang Xihe	214	–	–	214
Ms. Jiang Jianhua	214	–	–	214
Dr. Chan Yau Ching	214	–	–	214
Mr. Nathan Yu Li	214	–	–	214
	1,070	21,732	318	23,120

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

(b) Directors' retirement benefits

No specific retirement benefits were paid to directors in respect of services in connection with the management of the affairs of the company or its subsidiary undertaking (2022: Nil).

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

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.