



中國高速傳動設備集團有限公司*

China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

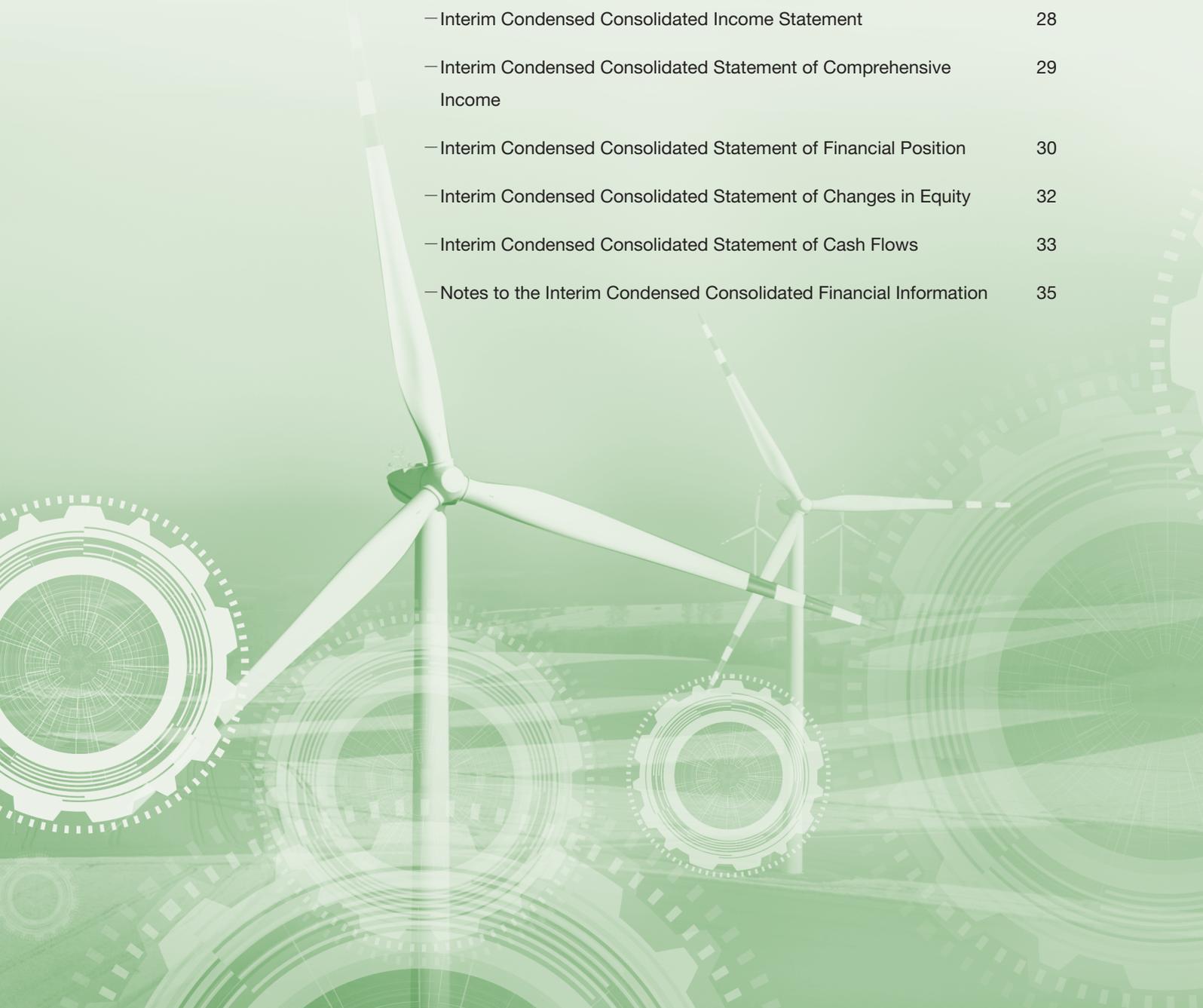
INTERIM REPORT

2022

For reference 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. Wang Zhengbing

Mr. Zhou Zhijin

Ms. Zheng Qing

Mr. Gu Xiaobin

Mr. Fang Jian

Independent non-executive Directors

Mr. Jiang Xihe

Ms. Jiang Jianhua

Dr. Chan Yau Ching, Bob

Mr. Nathan Yu Li

AUDIT COMMITTEE

Mr. Jiang Xihe (*Chairman*)

Dr. Chan Yau Ching, Bob

Mr. Nathan Yu Li

REMUNERATION COMMITTEE

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

Mr. Jiang Xihe

Mr. Chen Yongdao

NOMINATION COMMITTEE

Mr. Hu Jichun (*Chairman*)

Mr. Jiang Xihe

Mr. Nathan Yu Li

REGISTERED OFFICE

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

Chungs Lawyers in association with DeHeng Law
Offices

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1302, 13th Floor, COFCO Tower

No. 262 Gloucester Road

Causeway Bay

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

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

PLACE OF LISTING

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

STOCK CODE

00658

WEBSITE

www.chste.com

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2022 RMB' 000 (Unaudited)	Six months ended 30 June 2021 RMB' 000 (Unaudited)	Change
Revenue from contracts with customers	9,685,586	10,601,507	-8.6%
Gross profit	1,353,556	1,805,980	-25.1%
(Loss)/profit for the period attributable to owners of the Company	(78,708)	722,802	N/A
Basic and diluted (loss)/earnings per share (RMB)	(0.048)	0.442	N/A
	As at 30 June 2022 RMB' 000 (Unaudited)	As at 31 December 2021 RMB' 000 (Audited)	Change
Total assets	35,830,851	29,640,474	20.9%
Total liabilities	22,463,790	15,872,439	41.5%
Net assets	13,367,061	13,768,035	-2.9%
Net assets per share (RMB)	8.2	8.4	-2.4%
Gearing ratio*(%)	62.7	53.5	9.2 percentage points

* *Gearing ratio = total liabilities/total assets*

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China High Speed Transmission Equipment Group Co., Ltd. (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) are principally engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that is used in wind power and a wide range of industrial applications and trade of goods. During the six months ended 30 June 2022 (the “**Period under Review**”), the Group recorded sales revenue of approximately RMB9,685,586,000 (30 June 2021: RMB10,601,507,000), representing a decrease of 8.6% as compared with the corresponding period of 2021, and the gross profit margin was approximately 14.0% (30 June 2021: 17.0%). During the Period under Review, loss attributable to owners of the Company was approximately RMB78,708,000 (30 June 2021: profit attributable to owners of the Company of RMB722,802,000), and basic loss per share was RMB0.048 (30 June 2021: basic earnings per share of RMB0.442), which was mainly attributable to (i) the income tax expenses incurred arising from the disposal (the “**Disposal**”) of 43% equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd.* (南京高速齒輪製造有限公司) (“**Nanjing High Speed**”), a subsidiary of the Company; (ii) the accrued interest incurred arising from the put option liability in connection with the Disposal; and (iii) the decrease in revenue and gross profit margin as compared to the same period last year, resulting from (a) the decrease in selling price of the wind gear transmission equipment; (b) the increase in price of raw materials; and (c) the decrease in sales of the Group due to the prolonged COVID-19 pandemic.

Principal Business Review

1. Wind gear transmission equipment

Diversified, large and overseas market development

The Group is a leading supplier of wind gear transmission equipment in China, by leveraging on its strong research, design and development capabilities, our technology have reached an internationally advanced technical level. The wind gear transmission equipment products of the Group are widely applied in onshore and offshore wind power. The 2MW-7MW wind gear transmission equipment products have been provided to domestic and overseas customers in bulk. During the Period under Review, the Group maintains a strong customer portfolio. Customers of its wind gear transmission equipment business include the major wind turbine manufacturers in the PRC, as well as the renowned international wind turbine manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Suzlon and Doosan.

The wind gear transmission equipment is a major product that has been developed by the Group. During the Period under Review, sales revenue of wind gear transmission equipment business decreased by 12.2% to approximately RMB5,435,953,000 (30 June 2021: RMB6,192,952,000) as compared with the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. Industrial gear transmission equipment

Enhanced market competitiveness through changes in production modes and sales strategies

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

In recent years, the Group has always adhered to the strategy for green development of the industrial gear transmission equipment. With a focus on energy conservation, environmental protection and low carbon, as well as in-depth exploration in the transmission technology and extended driving technology, the Group has, under the iteration and upgrading of product technology in the field of heavy-duty transmission, developed standardized, modular and intelligent products which are internationally competitive and a electromechanical control integrated drive system with high efficiency, high reliability and low energy consumption. Through the characteristics of "complete range, clear layers and precise subdivision" as our products positions and market positions, the Group would be able to facilitate its change in sales strategies and production mode, which improves its comprehensive competitiveness and further consolidates its market advantages. Meanwhile, the Group has vigorously explored developed new markets and expanded new industries. In particular, the Group aims to focus on the research and development of the standard gear box and planetary gear box segment and to explore new markets of the same segment. At the same time, the Group has also strengthened its efforts to provide and sell parts and components of relevant products as well as comprehensive system solutions to its customers, helping them to enhance their current production efficiency 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 industrial gear transmission equipment market.

During the Period under Review, the industrial gear transmission equipment business generated sales revenue of approximately RMB1,002,979,000 (30 June 2021: RMB1,024,560,000) for the Group, representing a decrease of 2.1% as compared with the corresponding period of 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 the rail transportation fields such as high-speed rails, metro lines, urban train and tram. The Company has established long-term cooperative relationships with many well-known domestic and foreign companies in the industry. The Group has obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry for its rail transportation gear transmission equipment products, which has laid a solid foundation for further expansion in the international rail transportation market. Currently, the products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong, Taipei and other cities in China and have also been successfully applied to rail transportation transmission equipment in multiple countries and regions such as Singapore, Brazil, Netherlands, India, Mexico, Tunisia, Australia, Canada, France and Spain. With optimized gearbox design technology, excellent sealing technology and effective control of the production process, the Company's rail transportation gear transmission equipment is more environmentally friendly, and the products are well received by users.

During the Period under Review, the rail transportation gear transmission equipment business generated sales revenue of approximately RMB183,841,000 (30 June 2021: RMB202,746,000) for the Group, representing a decrease of 9.3% as compared with the corresponding period of last year.

4. Trading business

Explore and expand trading business through resource integration

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

During the Period under Review, the sales revenue of the trading business amounted to approximately RMB3,044,189,000 (30 June 2021: RMB3,149,579,000), representing a decrease of 3.4% as compared with the corresponding period of last year.

MANAGEMENT DISCUSSION AND ANALYSIS

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of the mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB1,144,606,000 (30 June 2021: RMB1,695,712,000), representing a decrease of 32.5% over the corresponding period of last year. Overseas sales accounted for 11.8% (30 June 2021: 16.0%) of the total sales, representing a decrease of 4.2 percentage points over the corresponding period of last year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Brazil.

PATENTED PROJECTS

The mechanical transmission equipment business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging on its innovative technology and premium quality, the Group has obtained major technical and quality awards, certificates and honorary titles at national, provincial and municipal level for over 100 times, such as national, provincial and municipal technology advancement awards, outstanding new products awards, Nanjing Mayor Quality Award, Jiangsu Governor Quality Nomination 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 as well as the honorary title of "Jiangsu Boutique". As of 30 June 2022, a total of 698 patents were granted by the State and 420 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards in the PRC. 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 ISO9001:2015 quality management system certificate, ISO14001:2015 environmental management system certificate, ISO45001:2018 occupational health and safety management system certificate, and "Jiangsu Boutique" certificate. The Group has also obtained the GB/T23001-2017 national integration of informationization and industrialization management system certificate. Its testing laboratory has obtained the ISO/IEC 17025 national laboratory certificate. Several special processes of heat treatment have obtained the TPG special process certificate. Nanjing High Speed, a subsidiary of the Group, has also become a APQP4Wind Company Member. 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 Überwachungs-Verein (TÜV), DNV GL, UL, European Union's CE and ETL; industrial gear transmission equipment products have been certified with the European Union's CE certificate, Mining Products Safety Approval and Certification Center (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.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

During the first half of 2022, the “triple pressures” on China’s economy have intensified again due to the impact of factors beyond expectation, such as the Russo-Ukrainian crisis and sanction measures, the new round of preventive and control policies for the epidemics. China adhered to the principle of “stability first, seeking progress in the midst of stability”, withstood the pressure and rose to the challenges, while focusing on stabilizing the macro economy, accelerating the resumption of production and business. This resulted in a stable macro economy with an upward trend during the first half of the year. According to statistics, the gross domestic product (GDP) of China for the first half of 2022 was RMB56,264.2 billion, increasing by 2.5% year-on-year at constant prices. During the second quarter, China’s economy withstood the pressure and achieved positive growth, increasing by 0.4% year-on-year. Among them, the value added of the primary sector was RMB2,913.7 billion, increasing by 5.0% year-on-year; the value added of the secondary sector was RMB22,863.6 billion, increasing by 3.2%; and the value added of the tertiary sector was RMB30,486.8 billion, increasing by 1.8%. For the first half of the year, China’s economy showed a stable recovery with outstanding resilience.

As a leading supplier of wind power transmission equipment, the Group makes continuous efforts in expanding into diversified, large and overseas market. Leveraging on its strong research, design and development capabilities, the Group currently has products covering different megawatt-class wind power gear transmission equipment for onshore wind power and offshore wind power assembly, of which the 2MW to 7MW-class wind power gear transmission equipment products have been supplied to domestic and overseas customers in bulk, with the product technology reaching international leading level. The Group has been widely recognized and trusted by its domestic and overseas customers for its quality products and good services. During the Period under Review, the Group continued to maintain a strong customer portfolio, with wind power customers including major domestic wind turbine package manufacturers in China and internationally renowned wind turbine package manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Suzlon and Doosan.

As the government’s policies in recent years have vigorously promoted wind power across the country, some wind turbine manufacturers have substantially reduced their selling price of wind turbines in order to capture share of the wind power market with vast potential, resulting in fierce price war and a substantial decrease in the price of wind turbines. Against this backdrop, as wind gear transmission equipment is one of the essential components of wind turbines, the downward price trend has inevitably lowered the prices of the wind gear transmission equipment of the Group, which in turn has led to a decrease in gross profit margin in the Group’s wind gear transmission equipment business. The adverse impact of the continuous price competition in the wind turbine manufacturing industry has posed great challenges and increased uncertainties to the development of the wind gear transmission equipment of the Group, and may adversely affect the long-term operation of the wind gear transmission equipment business.

MANAGEMENT DISCUSSION AND ANALYSIS

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

According to Fortune Business Insights, a leading market research publisher, the worldwide industrial gearbox market was USD26.17 billion in 2020. The market is expected to grow from USD27.92 billion in 2021 to USD38.10 billion in 2028, representing a CAGR of 4.5% from 2021 to 2028. Coupled with the expected market growth, supportive government policies, such as the “Pre-2030 Carbon Peaking Action Plan”, which promotes energy-saving and low-carbon strategies in key areas such as metallurgy, building materials, petrochemicals and chemicals; the “14th Five-Year Plan” for the development of intelligent manufacturing, which calls for the completion of more than 500 demonstration factories for intelligent manufacturing; and the “14th Five-Year Plan”, which aims to facilitate the research and development of the major technologies equipment of (a) construction machinery, (b) nuclear power plants, (c) large petroleum, petrochemical and coal chemical equipment and (d) key components of large-scale metallurgical, mining equipment and port machinery, enhancing the core competitiveness of the manufacturing industry; and the “Opinions on Promoting the Green Development of “One Belt, One Road”, which promotes the application areas of green infrastructure, green energy, green transportation, green finance, boosting the demand for industrial gears, have provided a promising future for China’s industrial gear industry. In view of the huge market potential and due to the established market and reputation of the Group in the industrial gear industry in the PRC, the Group intends to devote more resources to the industrial gear transmission equipment business and strive to develop the industrial gear transmission equipment business. With its core competencies, including its operational excellence and proven track record in manufacturing industrial gears, the Group will continue to focus on providing “four highs and three lows” solutions to its customers. The Group has identified strategic initiatives to leverage its strengths for organic expansion in China and overseas, including attracting new customers and enhancing customer loyalty, as well as pursuing new business opportunities by venturing into new product categories and new market avenues. Meanwhile, the Group 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

The Group has been engaged in the commodity trading business and steel industry chain trading business since 2012. The commodity trading business mainly involves the procurement and sale of bulk refined oil products and copper cathode. The steel industry chain business mainly involves the procurement and sale of raw coal, upstream raw materials for steel, coke and bulk steel. According to the Bureau of Operation of the National Development and Reform Commission of the PRC, from 2017 to 2021, the total trading volume of industrial commodities in the PRC increased year on year, reaching RMB299.6 trillion in 2021. To capture the huge market potential of the commodity trading industry in China and to broaden its income sources, the Group will continue to seize the opportunities to develop its trading business.

During the second half of 2022, the Group will adhere to the four core competitive strengths of “innovative thinking, zero defects, professional services, and customer orientation”, continuing to develop its gear transmission equipment business and to provide customers with better product and more comprehensive services. Meanwhile, the Group will continue to keep abreast of product market trends, improve product quality and economies of scale while expanding market share on all fronts, thereby enabling the Group to reach new record highs in profitability and create more value for shareholders and investors. With the introduction of the carbon peaking and carbon neutral targets, “green” has become the “new coordinate” for the quality development of Chinese enterprises. Against this backdrop, the Group, as a leading supplier in the transmission equipment sector, will continue to uphold the concept of driving the green development of its business and industry chain through innovation, leading the technological development trend of the industry and building a new “green” engine to help the country achieve the “dual carbon” targets.

INTERIM DIVIDEND

The board (the “Board”) of directors (the “Directors”) of the Company did not recommend to declare any interim dividend in respect of the six months ended 30 June 2022.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Revenue

Sales revenue of the Group for the Period under Review decreased by 8.6% to approximately RMB9,685,586,000.

	Revenue		
	Six months ended 30 June		
	2022	2021	Change
	RMB' 000	RMB' 000	
Wind Gear Transmission Equipment	5,435,953	6,192,952	-12.2%
Industrial Gear Transmission Equipment	1,002,979	1,024,560	-2.1%
Rail Transportation Gear Transmission Equipment	183,841	202,746	-9.3%
Trading Business	3,044,189	3,149,579	-3.4%
Other Products	18,624	31,670	-41.2%
Total	9,685,586	10,601,507	-8.6%

During the Period under Review, the Group's sales revenue was approximately RMB9,685,586,000, representing a decrease of 8.6% as compared with the corresponding period of last year. This was mainly due to a decline of the Group's sales as a result of the prolonged COVID-19 pandemic and the decrease in selling price of the wind gear transmission equipment.

During the Period under Review, sales revenue from wind gear transmission equipment was approximately RMB5,435,953,000 (30 June 2021: RMB6,192,952,000), representing a decrease of 12.2% as compared with the corresponding period of last year; sales revenue from industrial gear transmission equipment was approximately RMB1,002,979,000 (30 June 2021: RMB1,024,560,000), representing a decrease of 2.1% as compared with the corresponding period of last year; sales revenue from rail transportation gear transmission equipment was approximately RMB183,841,000 (30 June 2021: RMB202,746,000), representing a decrease of 9.3% as compared with the corresponding period of last year; and sales revenue from trading business was approximately RMB3,044,189,000 (30 June 2021: RMB3,149,579,000), representing a decrease of 3.4% as compared with the corresponding period of last year.

Gross profit margin and gross profit

During the Period under Review, the Group's consolidated gross profit margin was approximately 14.0% (30 June 2021: 17.0%), representing a decrease of 3.0 percentage points as compared with the corresponding period of last year. Consolidated gross profit for the Period under Review amounted to approximately RMB1,353,556,000 (30 June 2021: RMB1,805,980,000), representing a decrease of 25.1% as compared with the corresponding period of last year. During the Period under Review, the decrease in consolidated gross profit margin was mainly attributable to (i) a decrease in selling price of wind gear transmission equipment; and (ii) an increase in price of raw materials.

MANAGEMENT DISCUSSION AND ANALYSIS

Other income

During the Period under Review, the Group's other income was approximately RMB126,408,000 (30 June 2021: RMB135,641,000), representing a decrease of 6.8% as compared with the corresponding period of last year. Other income mainly comprised of interest income, government grants and income from sales of scraps and materials.

Other gains/(losses) – net

During the Period under Review, the Group's other net gains were approximately RMB62,127,000 (30 June 2021: net losses of RMB38,339,000) and mainly included foreign exchange gains and fair value gains on financial assets at fair value through profit or loss.

Selling and distribution expenses

During the Period under Review, the Group's selling and distribution expenses were approximately RMB192,527,000 (30 June 2021: RMB205,170,000), representing a decrease of 6.2% as compared with the corresponding period of last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and business expenses. Selling and distribution expenses accounted for 2.0% (30 June 2021: 1.9%) of sales revenue for the Period under Review, representing an increase of 0.1 percentage point over the corresponding period of last year.

Administrative expenses

During the Period under Review, the Group's administrative expenses were approximately RMB263,769,000 (30 June 2021: RMB243,894,000), representing an increase of 8.1% as compared with the corresponding period of last year. The increase in the administrative expenses was mainly due to the increase in staff costs and bank charges. Administrative expenses accounted for 2.7% (30 June 2021: 2.3%) of sales revenue for the Period under Review, representing an increase of 0.4 percentage point over the corresponding period of last year.

Research and development costs

During the Period under Review, the Group's research and development costs amounted to approximately RMB365,701,000 (30 June 2021: RMB451,007,000), representing a decrease of 18.9% as compared with the corresponding period of last year. Research and development costs accounted for 3.8% (30 June 2021: 4.3%) of sales revenue for the Period under Review, representing a decrease of 0.5 percentage point over the corresponding period of last year.

Net impairment losses recognised on financial assets

During the Period under Review, the net impairment losses recognised on financial assets of the Group amounted to approximately RMB67,770,000 (30 June 2021: RMB28,974,000), mainly comprising impairment losses on trade receivables of RMB33,258,000 and impairment losses on other receivables of RMB34,512,000. The net impairment losses recognised on financial assets of the Group increased by RMB38,796,000 as compared with the corresponding period of last year, which was mainly due to the increase in impairment losses of other receivables.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

During the Period under Review, the Group's finance costs were approximately RMB263,578,000 (30 June 2021: RMB135,550,000), representing an increase of 94.5% as compared with the corresponding period of last year, which was mainly due to an increase in bank borrowings and the accrued interest arising from put option liability in connection with the Disposal.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2022, the equity attributable to owners of the Company amounted to approximately RMB10,590,898,000 (31 December 2021: RMB13,399,195,000). The Group had total assets of approximately RMB35,830,851,000 (31 December 2021: RMB29,640,474,000), representing an increase of 20.9% as compared with the beginning of the year. Total current assets were approximately RMB26,611,357,000 (31 December 2021: RMB20,822,795,000), representing an increase of 27.8% as compared with the beginning of the year, mainly due to the increase in cash and cash equivalents, pledged bank deposits and trade receivables. Total non-current assets were approximately RMB9,219,494,000 (31 December 2021: RMB8,817,679,000), representing an increase of 4.6% as compared with the beginning of the year.

As at 30 June 2022, total liabilities of the Group were approximately RMB22,463,790,000 (31 December 2021: RMB15,872,439,000), representing an increase of approximately RMB6,591,351,000, or 41.5%, as compared with the beginning of the year. Total current liabilities were approximately RMB19,564,080,000 (31 December 2021: RMB14,721,603,000), representing an increase of 32.9% as compared with the beginning of the year, which was mainly due to the put option liability in connection with the Disposal. Total non-current liabilities were approximately RMB2,899,710,000 (31 December 2021: RMB1,150,836,000), representing an increase of 152.0% as compared with the beginning of the year, mainly due to an increase in bank borrowings.

As at 30 June 2022, the net current assets of the Group were approximately RMB7,047,277,000 (31 December 2021: RMB6,101,192,000), representing an increase of approximately RMB946,085,000, or 15.5%, as compared with the beginning of the year.

As at 30 June 2022, total cash and bank balances of the Group were approximately RMB8,981,159,000 (31 December 2021: RMB5,407,454,000), representing an increase of approximately RMB3,573,705,000, or 66.1%, as compared with the beginning of the year. Total cash and bank balances included pledged bank deposits of RMB3,583,802,000 (31 December 2021: RMB1,897,477,000) and the structured bank deposits included in the financial assets at fair value through profit or loss amounting to RMB55,659,000 (31 December 2021: RMB225,811,000).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2022, the Group had total borrowings of approximately RMB6,150,161,000 (31 December 2021: RMB3,998,099,000), representing an increase of approximately RMB2,152,062,000, or 53.8%, as compared with the beginning of the year, of which borrowings due within one year were RMB4,538,356,000 (31 December 2021: RMB3,998,099,000), accounting for 73.8% (31 December 2021: 100%) of the total borrowings. The Group's borrowings during the Period under Review bear interest rates from 3.40% to 7.61% per annum.

Taking into account the capital generated internally, the banking credit available to the Group and the net current assets of approximately RMB7,047,277,000 as at 30 June 2022, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 53.5% as at 31 December 2021 to 62.7% as at 30 June 2022.

Capital structure

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

The Group's cash and cash equivalents were mainly denominated in Renminbi and U.S. dollars. The Group's bank borrowings denominated in U.S. dollars as at 30 June 2022 amounted to approximately USD500,000.

As at 30 June 2022, the Group's borrowings with fixed interest rates accounted for approximately 91.9% of total borrowings.

PLEDGE OF ASSETS

Save as disclosed in note 24 to the condensed consolidated financial statements, the Group has made no further pledge of assets as at 30 June 2022.

CONTINGENT LIABILITIES

Save as disclosed in note 22 to the condensed consolidated financial statements, as at 30 June 2022, the Directors were not aware of any other material contingent liabilities.

CAPITAL COMMITMENTS

As at 30 June 2022, the Group had capital commitments contracted for but not provided in the condensed consolidated financial statements in respect of the acquisition of plant and machinery of approximately RMB2,942,306,000 (31 December 2021: RMB1,573,737,000). Relevant details are set out in note 23 to the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISK

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

The net exchange gains (included in "other gains – net") recorded by the Group during the Period under Review were approximately RMB47,208,000 (30 June 2021: net exchange losses of RMB31,325,000), mainly including gains from export business denominated in U.S. dollars due to the fluctuation of Renminbi against U.S. dollars during the Period under Review.

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

INTEREST RATE RISK

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2022, the Group employed approximately 6,299 employees (30 June 2021: 5,964). Staff costs of the Group for the Period under Review amounted to approximately RMB811,203,000 (30 June 2021: RMB760,035,000). The costs included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

PENSION SCHEME

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

SIGNIFICANT INVESTMENT HELD DURING THE PERIOD UNDER REVIEW

Set out below is the significant investment held by the Group which was classified as financial assets at fair value through other comprehensive income as at 30 June 2022:

Name of the investee company	Percentage of capital contribution paid up by the Group	Cost of investment (RMB' 000)	Fair value as at 30 June 2022 (RMB' 000)	Percentage of total assets of the Group	Accumulated change in unrealized losses in fair value (RMB' 000)	Dividends received during the Period under Review (RMB' 000)
Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership)* (浙江浙商產融投資合夥企業 (有限合夥)) (note)	6.47%	2,000,000	1,889,635	5.27%	110,365	-

Note: Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership)*(浙江浙商產融投資合夥企業(有限合夥))(formerly known as "Zhejiang Zheshang Chanrong Share Investment Fund LLP*" 浙江浙商產融股權投資基金合夥企業(有限合夥)), a limited partnership established and registered under the PRC laws in accordance with a limited partnership agreement, is primarily engaged in, among other things, private equity investment, investment management and investment consultation. As at 30 June 2022, the total paid up capital contribution was RMB30,929,080 thousands, of which RMB2,000,000 thousands was contributed by the Group.

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

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE PERIOD UNDER REVIEW

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

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

During the Period under Review, save as disclosed in the paragraph headed “Capital Commitments” under this section 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.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

No important events affecting the Group occurred since 30 June 2022 and up to the date of this report.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

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

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

DIRECTORS

Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Wang Zhengbing and Ms. Zheng Qing were re-elected as Directors by shareholders at the 2021 annual general meeting of the Company held on 16 May 2022.

The composition of the Board was as follows:

Executive Directors:

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

Mr. Hu Yueming

Mr. Chen Yongdao

Mr. Wang Zhengbing

Mr. Zhou Zhijin

Ms. Zheng Qing

Mr. Gu Xiaobin

Mr. Fang Jian

Independent Non-executive Directors:

Mr. Jiang Xihe

Ms. Jiang Jianhua

Dr. Chan Yau Ching, Bob

Mr. Nathan Yu Li

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

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

DIRECTORS' REMUNERATION

For the six months ended 30 June 2022, Directors' remuneration (including any fixed or discretionary bonuses and the payment prescribed in the service contract) was RMB9,332,000. Details of which are set out in the note 25(c) to the condensed consolidated financial statements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME

As at 30 June 2022, the Group did not adopt any share option schemes.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Group had not purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2022.

AUDIT COMMITTEE

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

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

The Group's 2022 interim report and unaudited condensed consolidated financial statements for the six months ended 30 June 2022 have been reviewed by the audit committee. The audit committee considered that the financial statements are in compliance with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

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

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

NOMINATION COMMITTEE

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

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

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

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

As at 30 June 2022, save as disclosed below, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions in which they were taken or deemed to have under such provisions of the Securities and Futures Ordinance), or which would be required, pursuant to Section 352 of the Securities and Futures Ordinance, to be recorded in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

CORPORATE GOVERNANCE AND OTHER INFORMATION

ASSOCIATED CORPORATION

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

Notes:

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

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, 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 Securities and Futures Ordinance) which were required to be entered in the register to be kept under section 352 of the Securities and Futures Ordinance 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 30 June 2022, the following persons (other than the Directors or the chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or which would be required, pursuant to Section 336 of the Securities and Futures Ordinance, to be entered in the register referred to therein:

Name	Nature of interest	Number of ordinary shares held	Approximate percentage to the issued shares of the Company (%)
Five Seasons XVI Limited ("Five Seasons") (Note 1)	Beneficial owner	1,208,577,693 (Long Position)	73.91 (Long Position)
Fullshare Holdings Limited ("Fullshare Holdings") (Note 1)	Interest of controlled corporation	1,208,577,693 (Long Position)	73.91 (Long Position)
Magnolia Wealth International Limited ("Magnolia Wealth") (Note 1)	Interest of controlled corporation	1,208,577,693 (Long Position)	73.91 (Long Position)
Mr. Ji Changqun ("Mr. Ji") (Note 1)	Interest of controlled corporation	1,208,577,693 (Long Position)	73.91 (Long Position)

CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes 1: 1,208,577,693 shares are directly held by Five Seasons, which is incorporated in the British Virgin Islands and a wholly-owned subsidiary of Fullshare Holdings (stock code: 607), which in turn is owned as to approximately 33.65% by Magnolia Wealth, a company incorporated in the British Virgin Islands. Magnolia Wealth is wholly-owned by Mr. Ji. By virtue of the Securities and Futures Ordinance, Mr. Ji is deemed to be interested in 1,208,577,693 shares held by Five Seasons.

Save as disclosed above and so far as the Directors are aware of, as at 30 June 2022, there was no other person, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which would be required, pursuant to Section 336 of the Securities and Futures Ordinance, to be entered in the register referred to therein.

INDEPENDENT REVIEW REPORT

Independent review report to the board of directors of China High Speed Transmission Equipment Group Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim condensed consolidated financial information of China High Speed Transmission Equipment Group Co., Ltd. (the “Company”) set out on pages 28 to 66, which comprises the interim condensed consolidated statement of financial position as at 30 June 2022, and the interim condensed consolidated income statement, interim condensed consolidated statement of comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six months then ended and notes to the interim condensed consolidated financial information. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim condensed consolidated financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34, Interim Financial Reporting, issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of the interim condensed consolidated financial information in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

INDEPENDENT REVIEW REPORT *(continued)*

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information for the six months ended 30 June 2022 is not prepared, in all material respects, in accordance with International Accounting Standard 34, Interim Financial Reporting.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 19 August 2022
Chan Sai Ho
Practising certificate number P07705

INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2022

	Note	Unaudited Six months ended 30 June	
		2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	5	9,685,586	10,601,507
Cost of sales		(8,332,030)	(8,795,527)
Gross profit		1,353,556	1,805,980
Selling and distribution expenses		(192,527)	(205,170)
Administrative expenses		(263,769)	(243,894)
Research and development costs		(365,701)	(451,007)
Net impairment losses recognised on financial assets	17	(67,770)	(28,974)
Other income	6	126,408	135,641
Other gains/(losses) – net	7	62,127	(38,339)
Operating profit		652,324	974,237
Finance income	9	52,566	30,634
Finance costs	9	(263,578)	(135,550)
Finance costs – net		(211,012)	(104,916)
Share of results of associates and joint ventures accounted for using the equity method		(2,598)	10,847
Profit before income tax		438,714	880,168
Income tax expenses	10	(324,878)	(119,350)
Profit for the period		113,836	760,818
(Loss)/profit for the period attributable to:			
– Owners of the Company		(78,708)	722,802
– Non-controlling interests		192,544	38,016
		113,836	760,818
(Loss)/earnings per share for (loss)/profit attributable to owners of the Company (expressed in RMB)			
Basic and diluted (loss)/earnings per share	11	(0.048)	0.442

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2022

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Profit for the period	113,836	760,818
Other comprehensive income/(loss) for the period:		
<i>Items that may be reclassified to profit or loss</i>		
– Changes in the fair value of debt investments at fair value through other comprehensive income	11,636	3,207
– Exchange differences on translation of foreign operations	9,145	(3,715)
– Income tax relating to these items	(1,400)	(507)
	19,381	(1,015)
<i>Items that will not be reclassified to profit or loss</i>		
– Changes in the fair value of equity instruments at fair value through other comprehensive income	(24,668)	(141,575)
– Income tax relating to these items	14,141	35,156
	(10,527)	(106,419)
Other comprehensive income/(loss), net of tax	8,854	(107,434)
Total comprehensive income for the period	122,690	653,384
Total comprehensive (loss)/income attributable to:		
– Owners of the Company	(79,287)	616,094
– Non-controlling interests	201,977	37,290
	122,690	653,384

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Note	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Non-current assets			
Property, plant and equipment	13	5,457,542	4,520,281
Right-of-use assets	13	684,583	672,705
Goodwill		26,414	26,414
Investments accounted for using the equity method		221,185	223,783
Financial assets at fair value through other comprehensive income ("FVOCI")	14	1,976,022	2,016,947
Financial assets at fair value through profit or loss ("FVPL")	15	375,700	363,800
Other financial asset at amortised cost	16	–	608,921
Deposits for land leases		5,890	5,890
Deferred tax assets		472,158	378,938
		9,219,494	8,817,679
Current assets			
Inventories		5,815,208	5,206,919
Trade receivables	17	5,837,959	4,433,827
Other receivables	17	880,270	993,556
Prepayments		1,571,846	1,327,042
Financial assets at fair value through other comprehensive income	14	2,871,893	3,262,355
Financial assets at fair value through profit or loss	15	71,805	411,578
Other financial asset at amortised cost	16	625,038	–
Income tax prepaid		11,838	5,875
Pledged bank deposits	18	3,583,802	1,897,477
Cash and cash equivalents	18	5,341,698	3,284,166
		26,611,357	20,822,795

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

As at 30 June 2022

	Note	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Current liabilities			
Trade payables	19	2,958,461	2,764,313
Bills payable	19	4,519,915	3,833,491
Other payables	19	980,773	2,189,571
Contract liabilities		959,708	824,532
Borrowings	20	4,538,356	3,998,099
Deferred income		9,721	12,484
Income tax payable		177,281	235,863
Warranty provision		1,035,750	863,250
Written put option liability	21(b)	4,384,115	–
		19,564,080	14,721,603
Net current assets			
		7,047,277	6,101,192
Total assets less current liabilities			
		16,266,771	14,918,871
Non-current liabilities			
Borrowings	20	1,611,805	–
Deferred income		292,859	200,477
Warranty provision		886,612	848,784
Deferred tax liabilities		108,434	101,575
		2,899,710	1,150,836
Net assets			
		13,367,061	13,768,035
Capital and reserves			
Share capital		119,218	119,218
Reserves		10,471,680	13,279,977
Equity attributable to owners of the Company			
		10,590,898	13,399,195
Non-controlling interests		2,776,163	368,840
Total equity			
		13,367,061	13,768,035

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2022

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Note	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000		
At 1 January 2021 (audited)		119,218	5,232,500	6,863,616	12,215,334	407,874	12,623,208
Profit for the period		-	-	722,802	722,802	38,016	760,818
Other comprehensive loss for the period		-	(106,708)	-	(106,708)	(726)	(107,434)
Total comprehensive (loss)/income for the period		-	(106,708)	722,802	616,094	37,290	653,384
Disposal of financial assets at FVOCI		-	(74,801)	74,801	-	-	-
Dividends declared to non-controlling interests		-	-	-	-	(89,302)	(89,302)
Disposal of subsidiaries		-	-	-	-	(30,698)	(30,698)
At 30 June 2021 (unaudited)		119,218	5,050,991	7,661,219	12,831,428	325,164	13,156,592
At 1 January 2022 (audited)		119,218	5,146,181	8,133,796	13,399,195	368,840	13,768,035
(Loss)/profit for the period		-	-	(78,708)	(78,708)	192,544	113,836
Other comprehensive income/(loss) for the period		-	(579)	-	(579)	9,433	8,854
Total comprehensive (loss)/income for the period		-	(579)	(78,708)	(79,287)	201,977	122,690
Transfer of fair value reserve upon privatisation of a listed equity investment at FVOCI	14	-	41,147	(41,147)	-	-	-
Partial disposal of interest in a subsidiary without loss of control	21	-	(2,729,010)	-	(2,729,010)	2,205,346	(523,664)
At 30 June 2022 (unaudited)		119,218	2,457,739	8,013,941	10,590,898	2,776,163	13,367,061

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2022

	Note	Unaudited	
		Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
Cash flows from operating activities			
Cash generated from operations		335,095	351,582
Income tax paid		(149,635)	(211,422)
Net cash generated from operating activities		185,460	140,160
Cash flows from investing activities			
Placements of pledged bank deposits		(5,556,832)	(4,478,318)
Withdrawal of pledged bank deposits		3,870,507	3,303,840
Investment in structured bank deposits		(55,000)	(355,000)
Redemption of structured bank deposits		226,889	450,996
Purchase of property, plant and equipment		(1,113,959)	(583,248)
Payments for land leases deposits		(20,806)	(50,730)
Proceeds from disposal of property, plant and equipment		11,801	15,641
Purchase of financial assets at fair value through other comprehensive income		(30,000)	–
Proceeds from sale of financial assets at fair value through other comprehensive income		46,256	123,286
Dividends received from financial assets at fair value through other comprehensive income	6	32	23,604
Interests received		58,158	23,901
Interest income received from deferred payment of consideration for partial disposal of a subsidiary		115,491	–
Net cash outflow on acquisition of a subsidiary	26	(6,840)	–
Net cash inflows on disposal of subsidiaries		–	10,852
Receipt of consideration receivables		–	149,000
Receipt of government grants		97,362	2,735
Loans to third parties		(165,000)	(50,000)
Receipt of loans receivable and other receivables		45,000	530,354
Net cash used in investing activities		(2,476,941)	(883,087)

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

For the six months ended 30 June 2022

	Note	Unaudited	
		Six months ended 30 June	
		2022	2021
		RMB'000	RMB'000
Cash flows from financing activities			
Proceeds from borrowings		5,018,750	2,571,575
Repayment of borrowings		(2,867,587)	(1,895,970)
Interest paid		(171,356)	(135,518)
Loans from third parties		120,000	–
Repayment of loans from third parties		(250,000)	–
Consideration received for partial disposal of a subsidiary without loss of control	21	3,300,000	1,000,000
Income tax paid on partial disposal of a subsidiary without loss of control	21	(838,804)	–
Net cash generated from financing activities		4,311,003	1,540,087
Net increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		3,284,166	2,184,334
Exchange gains/(losses) on cash and cash equivalents		38,010	(10,180)
Cash and cash equivalents at the end of the period		5,341,698	2,971,314

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

For the six months ended 30 June 2022

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 with effect from 26 April 2022. The head office and principal place of business is located at Room 1302, 13th Floor, COFCO Tower, No. 262 Gloucester Road, Causeway Bay, Hong Kong.

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

As at 30 June 2022, total shares of the Company were approximately 1,635,291 thousands (31 December 2021: 1,635,291 thousands).

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

This interim condensed consolidated financial information was approved for issue by the Board of Directors on 19 August 2022.

2 BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2022 has been prepared in accordance with International Accounting Standard (“IAS”) 34, Interim Financial Reporting, issued by the International Accounting Standards Board (“IASB”) and the applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange.

This interim condensed consolidated financial information has been prepared in accordance with the same accounting policies adopted in the Group’s 2021 annual consolidated financial statements, except for the adoption of amendments to IFRSs, as set out in Note 3.

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

For the six months ended 30 June 2022

2 BASIS OF PREPARATION *(Continued)*

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

This interim condensed consolidated financial information for the six months ended 30 June 2022 contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the Group's 2021 annual consolidated financial statements. This interim condensed consolidated financial information and notes thereon do not include all of the information and disclosures required for a complete set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs"), and should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2021.

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

3 CHANGES IN ACCOUNTING POLICIES

In the current period, the Group has applied the following amendments to IFRSs (the "Amendments") issued by the IASB, for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2022 for the preparation of the Group's interim condensed consolidated financial statements:

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

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

For the six months ended 30 June 2022

3 CHANGES IN ACCOUNTING POLICIES *(Continued)*

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The table below analyses the Group's financial instruments carried at fair value as at 30 June 2022 and 31 December 2021 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

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

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

For the six months ended 30 June 2022

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

The following tables set out the Group's financial assets that were measured at fair value as at 30 June 2022 and 31 December 2021:

Recurring fair value measurements At 30 June 2022 (unaudited)	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at FVPL	–	–	447,505	447,505
Financial assets at FVOCI	78,544	–	4,769,371	4,847,915
	78,544	–	5,216,876	5,295,420
At 31 December 2021 (audited)				
Financial assets				
Financial assets at FVPL	–	–	775,378	775,378
Financial assets at FVOCI	66,886	–	5,212,416	5,279,302
	66,886	–	5,987,794	6,054,680

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 approach, market comparison approach, etc. The fair values of these financial instruments may be based on unobservable inputs, which may have significant impact on the valuation of these financial instruments, and therefore have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio, etc.

There were no transfers among levels during six months ended 30 June 2022 and 2021.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2022 and 31 December 2021.

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

For the six months ended 30 June 2022

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

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

The following table presents the changes in level 3 items for the six months ended 30 June 2022 and 2021:

	Financial assets at FVPL			Financial assets at FVOCI		Financial assets
	Unlisted equity investments RMB'000	Trade receivables RMB'000	Structured bank deposits RMB'000	Unlisted equity investments RMB'000	Bills receivables RMB'000	Total RMB'000
At 1 January 2021 (audited)	349,812	185,269	320,045	2,258,468	3,422,363	6,535,957
Acquisitions	-	911,407	355,000	-	3,931,519	5,197,926
Disposals	-	(821,303)	(450,996)	(100,000)	(5,188,305)	(6,560,604)
Gains/(losses) recognised in profit or loss	11,450	(1,352)	3,451	-	-	13,549
Gains/(losses) recognised in other comprehensive income	-	-	-	(137,178)	3,207	(133,971)
At 30 June 2021 (unaudited)	361,262	274,021	227,500	2,021,290	2,168,784	5,052,857
At 1 January 2022 (audited)	373,160	176,407	225,811	1,950,061	3,262,355	5,987,794
Acquisitions	-	201,821	55,000	-	4,239,958	4,496,779
Disposals	-	(372,401)	(226,889)	-	(4,642,056)	(5,241,346)
Gains recognised in profit or loss	11,898	961	1,737	-	-	14,596
Gains/(losses) recognised in other comprehensive income	-	-	-	(52,583)	11,636	(40,947)
At 30 June 2022 (unaudited)	385,058	6,788	55,659	1,897,478	2,871,893	5,216,876

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

4 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (Continued)

(ii) Valuation inputs and relationships to fair value

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

(iii) Sensitivity analysis

The sensitivity analysis has been determined based on the change of rate of return in isolation used in the expected future cash flows that reflect the expected risk level of the financial assets at the end of each of the reporting periods. If the respective rate of return of the respective financial assets had been 10% higher/lower, the total comprehensive income (net of tax) for the six months ended 30 June 2022 would have increased/decreased by approximately RMB680 thousands (six months ended 30 June 2021: RMB9,401 thousands) as a result of the changes in fair value of the financial assets.

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

For the six months ended 30 June 2022

5 OPERATING SEGMENT INFORMATION

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

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 projects, 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 income tax except that interest income, finance costs, dividend income, fair value gains/losses from the Group's financial instruments, gains/losses on disposal of subsidiaries, foreign exchange gains/losses, share of results of associates and joint ventures as well as head office and corporate expenses are excluded from such measurement.

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

5 OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
For the six months ended 30 June 2022 (unaudited)					
Segment revenue					
Total segment revenue	6,443,659	183,841	3,044,189	18,624	9,690,313
Inter-segment revenue	(4,727)	–	–	–	(4,727)
Revenue from external customers	6,438,932	183,841	3,044,189	18,624	9,685,586
Timing of revenue recognition					
At a point in time	6,438,932	183,841	3,044,189	18,624	9,685,586
Segment results	546,137	30,452	40,610	(9,715)	607,484
Finance costs – net					(211,012)
Dividend income					32
Interest income from other financial asset at amortised cost					16,117
Interest income from deferred payment of consideration for partial disposal of a subsidiary					21,373
Foreign exchange gains, net					47,208
Fair value gains on financial assets at FVPL					14,596
Share of results of associates and joint ventures					(2,598)
Corporate and other unallocated expenses					(54,486)
Profit before income tax					438,714

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

5 OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information (Continued)

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
Other segment information					
Write-down/(reversal of write-down) of inventories	68,078	(1,237)	–	–	66,841
Net impairment losses recognised on financial assets	12,661	11,918	183	544	25,306
Impairment losses on property, plant and equipment	49	–	–	–	49
Impairment losses on prepayments	4,198	–	–	–	4,198
Depreciation	201,784	2,036	22	344	204,186
Capital expenditure	1,105,549	12,983	29	–	1,118,561
As at 30 June 2022 (unaudited)					
Segment assets	17,390,571	480,984	3,028,711	1,195,601	22,095,867
Corporate and other unallocated assets					13,734,984
Total assets					35,830,851
Segment liabilities	10,878,550	190,706	82,043	128,209	11,279,508
Corporate and other unallocated liabilities					11,184,282
Total liabilities					22,463,790

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

5 OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information (Continued)

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

5 OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information (Continued)

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
Other segment information					
Write-down of inventories	140,610	1,666	-	-	142,276
Net impairment losses recognised on financial assets	21,239	3,541	805	2,981	28,566
Impairment losses on property, plant and equipment	22,100	-	-	-	22,100
Impairment losses on prepayments	427	-	-	-	427
Depreciation	184,580	1,933	19	254	186,786
Capital expenditure	565,853	17,377	48	22	583,300
As at 31 December 2021 (audited)					
Segment assets	15,425,872	464,886	2,732,756	820,817	19,444,331
Corporate and other unallocated assets					10,196,143
Total assets					29,640,474
Segment liabilities	9,935,849	188,499	56,786	171,484	10,352,618
Corporate and other unallocated liabilities					5,519,821
Total liabilities					15,872,439

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

5 OPERATING SEGMENT INFORMATION (Continued)

(b) Geographical information

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Revenue from external customers		
PRC	8,540,980	8,905,795
USA	793,333	1,007,732
Europe	67,201	86,490
Other countries	284,072	601,490
	9,685,586	10,601,507

6 OTHER INCOME

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Dividend income from financial assets at FVOCI (Note 14)	32	23,604
Interest income from other financial asset at amortised cost (Note 16)	16,117	16,117
Interest income from deferred payment of consideration for partial disposal of a subsidiary (Note)	21,373	–
Government grants		
– Deferred income recognised	7,743	9,909
– Other government subsidies	38,479	28,431
Sale of scraps and materials	26,970	41,622
Gross fixed rental income	3,113	6,755
Others	12,581	9,203
	126,408	135,641

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. ("Nanjing High Speed") during the period, details of which are set out in Note 21 to the interim condensed consolidated financial information.

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

For the six months ended 30 June 2022

7 OTHER GAINS/(LOSSES) – NET

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Gains on disposal of property, plant and equipment, net (Note 13)	372	1,126
Gains on disposal of subsidiaries	–	411
Foreign exchange gains/(losses), net	47,208	(31,325)
Net fair value gains on financial assets at FVPL (Note 15(ii))	14,596	13,549
Impairment losses on property, plant and equipment	(49)	(22,100)
	62,127	(38,339)

8 EXPENSES BY NATURE

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Cost of inventories sold	7,590,920	8,133,022
Employee benefits expenses	811,203	760,035
Depreciation of property, plant and equipment	194,098	192,139
Depreciation of right-of-use assets	8,724	7,785
Write-down of inventories	66,841	142,276
Other expenses	482,241	460,341
Total cost of sales, selling and distribution expenses, research and development costs and administrative expenses	9,154,027	9,695,598

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

9 FINANCE INCOME AND COSTS

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Finance income		
– Bank interest income	52,566	30,634
Finance costs		
– Interest expenses on bank and other borrowings	(182,316)	(135,550)
Less: Interest capitalised	2,853	–
	(179,463)	(135,550)
– Written put option liability: unwinding of discount (Note 21(b))	(84,115)	–
	(263,578)	(135,550)
Finance costs – net	(211,012)	(104,916)

10 INCOME TAX EXPENSES

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Current income tax – charge for the period		
– PRC	422,771	154,658
– Hong Kong	273	12,537
– Others	17	300
Current income tax – over-provision in respect of prior years	(22,830)	–
	400,231	167,495
Deferred tax	(75,353)	(48,145)
Income tax expenses	324,878	119,350

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

10 INCOME TAX EXPENSES (Continued)

(a) PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (six months ended 30 June 2021: 25%) on the taxable profits of the Group's PRC subsidiaries for the six months ended 30 June 2022. The increase in PRC corporate income tax is attributable to an one-off tax of RMB315,140,000 (six months ended 30 June 2021: Nil) arising from the partial disposal of a subsidiary during the period. Refer to Note 21(a) for details.

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

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

(b) Hong Kong Profits Tax

Hong Kong Profits Tax has been provided at the rate of 16.5% (six months ended 30 June 2021: 16.5%) on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2022.

(c) Other corporate income tax

Other corporate income tax has been provided at the rates of 8.5% to 18.5% (six months ended 30 June 2021: 8.5% to 18.5%) on the estimated assessable profits arising from the jurisdictions at which the entities are operated.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

11 (LOSS)/EARNINGS PER SHARE

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Net (loss)/profit attributable to owners of the Company	(78,708)	722,802
Weighted average number of ordinary shares outstanding for basic (loss)/earnings per share ('000)	1,635,291	1,635,291
Basic (loss)/earnings per share (RMB)	(0.048)	0.442

No adjustment is made to the diluted (loss)/earnings per share for the six months ended 30 June 2022 and 2021 as there was no potential dilutive shares in issue.

12 DIVIDENDS

The directors resolved not to declare any interim dividend in respect of the six months ended 30 June 2022 (six months ended 30 June 2021: Nil).

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

During the six months ended 30 June 2022, the Group acquired property, plant and equipment and right-of-use assets with a cost of RMB1,097,755 thousands (six months ended 30 June 2021: RMB583,302 thousands) and RMB20,806 thousands (six months ended 30 June 2021: Nil), respectively.

Property, plant and equipment with a net book value of RMB11,837 thousands (six months ended 30 June 2021: RMB14,515 thousands) were disposed by the Group during the six months ended 30 June 2022, resulting in a net gain on disposal of RMB372 thousands (six months ended 30 June 2021: RMB1,126 thousands).

At 30 June 2022, the Group is in the process of obtaining property certificates for the buildings and land use rights certificates in respect of land use rights located in the PRC with carrying amounts of RMB509,706 thousands and RMB136,438 thousands (31 December 2021: RMB519,841 thousands and RMB138,079 thousands), respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

14 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Classification of financial assets at FVOCI

Financial assets measured at FVOCI include the following:

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Non-current assets		
Listed equity investments (Note (a))	78,544	66,886
Unlisted equity investments (Note (b))	1,897,478	1,950,061
	1,976,022	2,016,947
Current assets		
Debt investments (Note (c))	2,871,893	3,262,355
	4,847,915	5,279,302

Notes:

(a) Listed equity investments

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Riyue Heavy Industry Co., Ltd.	21,163	27,453
Guodian Technology & Environmental Group Co., Ltd. ("Guodian Tech")	–	23,755
China PengFei Group Limited	16,562	15,678
Sanyi Heavy Energy Co., Ltd.	40,819	–
	78,544	66,886

During the six months ended 30 June 2022, Guodian Tech was privatised and the Group has received a consideration of RMB46,256 thousands for cancellation of its shares in Guodian Tech. The Group realised a loss of RMB41,147 thousands which was included in other comprehensive income and transferred to retained earnings during the period.

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

For the six months ended 30 June 2022

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

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

Notes: *(Continued)*

(b) Unlisted equity investments

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Zhejiang Zheshang Chanrong Equity Investment Fund L.P. (Note)	1,889,635	1,942,431
Others	7,843	7,630
	1,897,478	1,950,061

Note:

On 17 April 2017, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive") entered into a limited partnership agreement with thirty-four other partners in respect of the establishment of a permanent investment fund in the PRC named Zhejiang Zheshang Chanrong 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 30 June 2022, the investment in Zhejiang Zheshang Chanrong had a fair value of RMB1,889,635 thousands (31 December 2021: RMB1,942,431 thousands) and a fair value loss of RMB52,796 thousands (six months ended 30 June 2021: RMB54,411 thousands) was recognised in other comprehensive income for the six months ended 30 June 2022.

(c) Debt investments

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

For the six months ended 30 June 2022, fair value gain of RMB11,636 thousands (six months ended 30 June 2021: RMB3,207 thousands) for bills receivable measured at FVOCI are recognised in other comprehensive income.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

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

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

For the six months ended 30 June 2022 and 2021, the following (losses)/gains were recognised in profit or loss and other comprehensive income.

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Losses recognised in other comprehensive income	(13,032)	(138,368)
Dividend income from equity investments held at FVOCI recognised in profit or loss in other income (Note 6)	32	23,604

15 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

Financial assets measured at FVPL include the following:

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Non-current asset		
Unlisted equity investments (Note (a))	375,700	363,800
Current assets		
Structured bank deposits (Note (b))	55,659	225,811
Trade receivables measured at FVPL (Note (c))	6,788	176,407
Unlisted equity investments	9,358	9,360
	71,805	411,578
	447,505	775,378

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

For the six months ended 30 June 2022

15 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 30 June 2022, the investment in Ningbo Nangao Jingchuan, Ningbo Gaona Jingte and Ningbo Gaotai Jingli had a fair value of RMB132,600 thousands, RMB132,600 thousands and RMB110,500 thousands (31 December 2021: RMB128,400 thousands, RMB128,400 thousands and RMB107,000 thousands) respectively, and an aggregate fair value gain of RMB11,900 thousands (six months ended 30 June 2021: RMB11,402 thousands) was recognised in profit or loss during the six months ended 30 June 2022.

(b) Structured bank deposits

As at 30 June 2022, structured bank deposits of RMB55,659 thousands (31 December 2021: RMB225,811 thousands) represented financial instruments placed by the Group to two (31 December 2021: two) banks in the PRC for a term within one year. The contract guarantees principal and proceeds are related to the performance of exchange rate.

(c) Trade receivables measured at FVPL

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

As at 30 June 2022, such trade receivables held solely for selling purpose amounting to RMB6,788 thousands (31 December 2021: RMB176,407 thousands) were classified as financial assets at FVPL. For the six months ended 30 June 2022, fair value losses of RMB961 thousands (six months ended 30 June 2021: RMB1,352 thousands) for trade receivables measured at FVPL are recognised in other gains/(losses) – net.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

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

(ii) Amounts recognised in profit or loss

For the six months ended 30 June 2022 and 2021, the following gains were recognised in profit or loss:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Fair value gains on equity investments at FVPL recognised in other gains/(losses) – net (Note 7)	11,898	11,450
Fair value gains on debt investments at FVPL recognised in other gains/(losses) – net (Note 7)	2,698	2,099
	14,596	13,549

16 OTHER FINANCIAL ASSET AT AMORTISED COST

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Insurance investment (Note)	625,038	608,921
Represented		
– Current asset	625,038	–
– Non-current asset	–	608,921
	625,038	608,921

Note:

The balance represented advances made to an insurance company in the PRC with a principal of RMB500,000 thousands and 5-year maturity in June 2023, which carried fixed interest rate at 6.5% per annum. Interest and the principal amount are repayable at the maturity date.

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

For the six months ended 30 June 2022

17 TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Trade receivables		
– Amounts due from third parties	6,428,166	4,996,424
Less: Loss allowances	(590,207)	(562,597)
	5,837,959	4,433,827
Other receivables		
– Amounts due from third parties	1,201,112	1,188,450
– Amounts due from associates	45,951	45,951
	1,247,063	1,234,401
Less: Loss allowances	(408,635)	(374,131)
	838,428	860,270
Value-added tax recoverable	41,842	133,286
	880,270	993,556
	6,718,229	5,427,383

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 INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2022

17 TRADE AND OTHER RECEIVABLES *(Continued)*

As at 30 June 2022, included in other receivables were receivables from former subsidiaries of RMB510,296 thousands (31 December 2021: RMB542,233 thousands).

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Less than 90 days	4,682,181	3,401,925
90 to 180 days	385,714	441,965
181 to 365 days	402,244	407,263
1 to 2 years	328,815	146,182
Over 2 years	39,005	36,492
	5,837,959	4,433,827

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

17 TRADE AND OTHER RECEIVABLES (Continued)

Impairment of financial assets under expected credit loss model

The loss allowance for trade receivables at 30 June 2022 and 31 December 2021 was determined as follows:

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Over 4 years RMB'000	Total RMB'000
At 30 June 2022 (unaudited)						
Expected credit loss rate	1%	23%	48%	74%	100%	6%
Gross carrying amount						
– Trade receivables assessed under provision matrix	5,544,847	424,713	60,286	30,279	183,584	6,243,709
Loss allowance under provision matrix	74,708	95,898	29,136	22,424	183,584	405,750
100% specifically provided	–	–	–	28,065	156,392	184,457
Loss allowance	74,708	95,898	29,136	50,489	339,976	590,207
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Over 4 years RMB'000	Total RMB'000
At 31 December 2021 (audited)						
Expected credit loss rate	2%	31%	47%	89%	100%	8%
Gross carrying amount						
– Trade receivables assessed under provision matrix	4,325,320	210,807	61,628	36,287	177,925	4,811,967
Loss allowance under provision matrix	74,167	64,625	29,144	32,279	177,925	378,140
100% specifically provided	–	–	11,429	49,968	123,060	184,457
Loss allowance	74,167	64,625	40,573	82,247	300,985	562,597

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

17 TRADE AND OTHER RECEIVABLES (Continued)

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

For the six months ended 30 June 2022 and 2021, the following impairment losses were recognised in profit or loss:

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Impairment losses recognised on trade receivables	33,258	26,101
Impairment losses recognised on other receivables	34,512	2,873
	67,770	28,974

18 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	Unaudited	Audited
	30 June	31 December
	2022	2021
	RMB'000	RMB'000
Cash at banks and on hand	8,925,500	5,181,643
Less: Pledged bank deposits	(3,583,802)	(1,897,477)
Cash and cash equivalents	5,341,698	3,284,166

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 INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION *(continued)*

For the six months ended 30 June 2022

19 TRADE, BILLS AND OTHER PAYABLES

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Trade payables		
– Amounts due to third parties	2,958,443	2,764,295
– Amounts due to an associate	18	18
	2,958,461	2,764,313
Bills payable	4,519,915	3,833,491
	7,478,376	6,597,804
Other payables		
– Accruals	159,097	125,652
– Other tax payables	79,077	20,515
– Purchase of property, plant and equipment	139,972	158,189
– Payroll and welfare payables	105,974	198,803
– Financial guarantee liabilities (Note 22)	3,789	6,359
– Consideration received for partial disposal of a subsidiary (Note)	–	1,000,000
– Amounts due to third parties	386,026	576,051
– Dividends payable to non-controlling interests	89,002	89,002
– Amount due to an associate	17,836	15,000
	980,773	2,189,571
	8,459,149	8,787,375

Note:

As at 31 December 2021, the Group has received RMB1,000,000 thousands as the first instalment of the consideration for its disposal of 43% equity interest in Nanjing High Speed, details of which are set out in Note 21 to the interim condensed consolidated financial information.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

19 TRADE, BILLS AND OTHER PAYABLES (Continued)

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
0 to 30 days	3,362,679	2,704,030
31 to 60 days	604,263	484,097
61 to 180 days	3,239,074	1,464,588
181 to 365 days	166,010	1,832,549
Over 365 days	106,350	112,540
	7,478,376	6,597,804

20 BORROWINGS

	Unaudited 30 June 2022		Audited 31 December 2021	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Current				
Bank loans – Unsecured	3.70-5.22	3,738,356	3.00-5.22	2,200,939
Bank loans – Secured	3.40	400,000	3.40-5.22	1,397,160
Loans from other financial institution – Secured	7.61	400,000	7.61	400,000
		4,538,356		3,998,099
Non-current				
Bank loans – Unsecured	4.53	499,996		–
Bank loans – Secured	5.02	1,111,809		–
		1,611,805		–
		6,150,161		3,998,099

Note:

The secured borrowings were secured by pledge of assets, details of which are set out in Note 24. In addition, as at 30 June 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.

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

For the six months ended 30 June 2022

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

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

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

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

	RMB’000
Consideration received for the Disposal	4,300,000
Less: Non-controlling interests recognised	(2,205,346)
Less: Income tax recognised directly in equity (Note (a))	(523,664)
Less: Written put option liability initially recognised (Note (b))	(4,300,000)
Decrease in equity attributable to owners of the Company	(2,729,010)

Notes:

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

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

Notes: (Continued)

(b) Written put option liability

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

The written put option liability is initially recognised at fair value with a corresponding charge directly to equity within 'other reserves'. The fair value of the written put option liability at grant date is measured at the present value of the exercise price of RMB4,300,000 thousands plus 6% interest per annum, by applying a discount rate of 6%, and on the assumption that the put option will be redeemable in 3 years.

The 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 is unexercised upon expiry, the liability is derecognised with a corresponding adjustment to equity.

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

	RMB'000
At 1 January 2022 (audited)	–
Issuance of written put option	4,300,000
Unwinding of discount	84,115
At 30 June 2022 (unaudited)	4,384,115

22 CONTINGENT LIABILITIES

Financial guarantees

As at 30 June 2022, the Group issued financial guarantees to banks in respect of bank loans of RMB48,018 thousands (31 December 2021: RMB220,796 thousands) granted to one of the Group's associates and RMBNil (31 December 2021: RMB3,000 thousands) granted to an independent third party. This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At the end of the reporting period, an amount of RMB3,789 thousands (31 December 2021: RMB6,359 thousands) has been recognised in the interim condensed consolidated statement of financial position as liabilities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

23 CAPITAL COMMITMENTS

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Contracted, but not provided for:		
Plant and machinery	2,942,306	1,573,737

24 ASSETS PLEDGED AS SECURITIES

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

	Unaudited 30 June 2022 RMB'000	Audited 31 December 2021 RMB'000
Bills receivable	812,855	1,338,295
Trade receivables	398,803	398,803
Property, plant and equipment	352,125	660,886
Land use rights	415,853	358,195
Pledged bank deposits	3,583,802	1,897,477
	5,563,438	4,653,656

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

25 RELATED PARTY TRANSACTIONS

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Associates:		
Purchases of products (Note (i))	–	15
Sales of products (Note (ii))	–	86
Joint ventures:		
Sales of products (Note (ii))	N/A	87,091

Notes:

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

The Group's trade and other balances with its associates as at the end of the reporting period are disclosed in Notes 17 and 19 to this interim condensed consolidated financial information.

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

	Unaudited	
	Six months ended 30 June	
	2022	2021
	RMB'000	RMB'000
Fees	513	499
Salaries and other emoluments	8,819	8,819
	9,332	9,318

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION (continued)

For the six months ended 30 June 2022

26 BUSINESS COMBINATION

In May 2022, the Group acquired 100% equity interest in Shanghai Faske Energy Technology Co., Ltd. from an independent third party with a consideration of RMB8,397 thousands.

The assets and liabilities recognised as a result of the acquisition are as follows:

	RMB'000
Cash and cash equivalents	1,557
Trade receivables	1,448
Property, plant and equipment	39,611
Other payables	(32,486)
Deferred tax liabilities	(1,733)
Net identifiable assets acquired	8,397
Consideration	8,397

Purchase consideration – cash outflow

	Six-months ended 30 June 2022 RMB'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration paid	(8,397)
Add: Cash and cash equivalents acquired	1,557
Net outflow of cash – investing activities	(6,840)

According to the finalised valuation report, deferred tax liabilities of RMB1,733 thousands has been provided in relation to the fair value adjustments as to the acquired property, plant and equipment of RMB6,932 thousands.