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

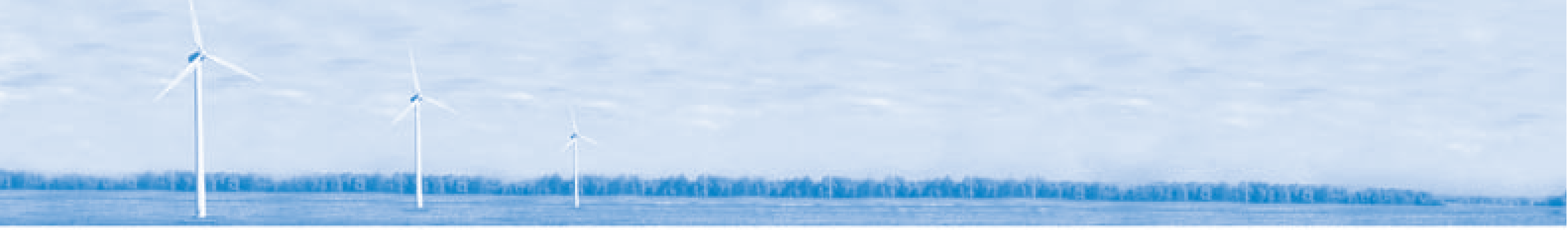
(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

ANNUAL REPORT 2012

* For identification purpose only

CONTENTS



CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Yueming *(Chairman and Chief Executive Officer)*
Mr. Chen Yongdao
Mr. Lu Xun
Mr. Li Shengqiang
Mr. Liu Jianguo
Mr. Liao Enrong
Mr. Jin Maoji

Independent non-executive Directors

Mr. Jiang Xihe
Mr. Zhu Junsheng
Mr. Chen Shimin
Ms. Jiang Jianhua

AUDIT COMMITTEE

Mr. Jiang Xihe *(Chairman)*
Mr. Zhu Junsheng
Mr. Chen Shimin

REMUNERATION COMMITTEE

Mr. Chen Shimin *(Chairman)*
Mr. Jiang Xihe
Mr. Liu Jianguo

NOMINATION COMMITTEE

Mr. Hu Yueming *(Chairman)*
Mr. Zhu Junsheng
Mr. Jiang Xihe

REGISTERED OFFICE

3rd Floor, Queensgate House
113 South Church Street
P.O. Box 10240
Grand Cayman KY1-1002
Cayman Islands

AUDITORS

Deloitte Touche Tohmatsu

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1302
13th Floor
Top Glory Tower
No.262 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY SECRETARY

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

QUALIFIED ACCOUNTANT

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

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

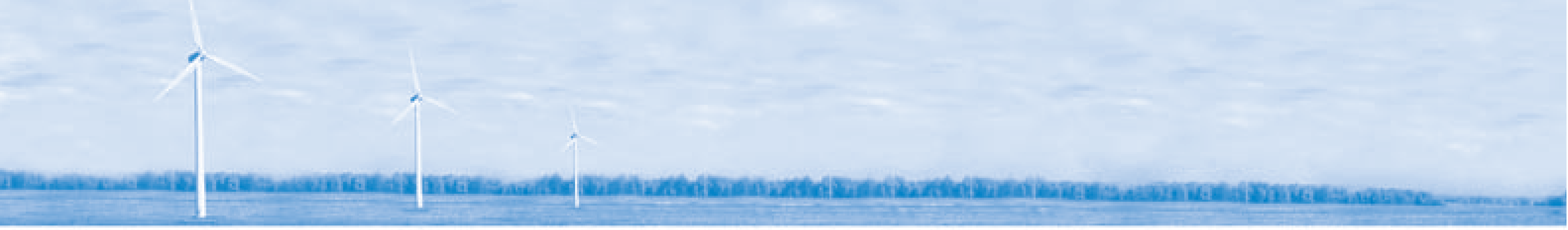
China Construction Bank Limited, Jiangsu Provincial Branch
China Minsheng Banking Corp. Ltd., Nanjing Branch
China Merchants Bank Co., Ltd., Nanjing Branch
BNP Paribas (China) Limited
BNP Paribas Hong Kong Branch
Australia and New Zealand Bank (China) Company Limited
Citibank (China) Co. Ltd.

WEBSITE

www.chste.com

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited ("Stock Exchange")
(Stock Code: 00658)



PERFORMANCE HIGHLIGHTS

Revenue for 2012 was approximately RMB6,368,817,000, representing a decrease of 10.6% as compared with 2011.

Profit attributable to owners of the Company for 2012 was approximately RMB138,426,000, representing a decrease of 75.1% as compared with 2011.

Basic and diluted earnings per share for 2012 were both RMB0.102.

The Board did not recommend payment of a final dividend for 2012.

CHAIRMAN'S STATEMENT

I am pleased to present the 2012 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the "Company"). For the year ended 31 December 2012 (the "Period under Review"), the Company and its subsidiaries (collectively referred to as the "Group") recorded sales revenue of approximately RMB6,368,817,000, representing a decrease of approximately 10.6% from 2011. Profit attributable to owners of the Company was approximately RMB138,426,000, representing a decrease of approximately 75.1% from 2011. The gross profit margin for the year was 24.4%, representing a decrease of 1.1 percentage points from last year.

In 2012, global economy continued to recover slowly. Economic growth in the U.S. and Japan were weak, and major economies in Europe also delivered lacklustre performance and even showed a trend of recession. The risk of economic downturn in Europe also hit other economies. In the emerging market, as a result of the sharp decrease in external demand and domestic economic correction, the economic growth of certain countries slowed down. China's economy also grew at a much lower rate amid shrank global demand and accelerated economy restructuring.

Difficult domestic and international market environment posed serious challenges to the Group's major business segments such as wind power, marine and traditional products. We faced huge pressure arising from the decrease in purchase orders received of traditional products, but managed to maintain our position in domestic and international markets.

The wind power industry in the PRC delivered a mixed performance in 2012. Its newly installed onshore wind capacity amounted to 15.90 million KW in the year, accounting for more than 1/3 of new installed capacity in the world and enabling China to maintain the leading position in the world for four consecutive years. According to the Twelfth Five-Year Plan for Renewable Energy issued by the National Energy Administration, it is anticipated that China will have a total offshore wind capacity of 5GW and establish an offshore wind power industry chain by 2015. Beyond 2015, China's offshore wind capacity industry will enter a stage of development in large scale and will have self-developed internationally-leading technologies. By 2020, the installed capacity of China's offshore wind power industry will reach 30GW. However, in 2012, amid slowed global economic growth and generally cooled industries in the PRC such as coal, steel and photovoltaic industry, wind power industry was not immune and entered a period of adjustment. In 2012, increasing wind farms suspended operation in northern, north-eastern and north-western areas in China. The conflicts between wind power and conventional energy, especially those between wind power and heat and power units during the period of heat supply, as well as traditional power system operation mechanism, have hampered the development of wind power. Nonetheless, in the long run, the consolidation, transformation and upgrade of the industry will inevitably accumulate power as and when new opportunities arise. Industry consolidation will eliminate excessive productivity and improve the quality of wind power generating units and facilitate the development of wind power industry in a longer term. With the introduction of new technologies and the support of government policies on new energy, the prospect of the industry is promising.

CHAIRMAN'S STATEMENT

As a leading manufacturer of wind gear transmission equipment in the PRC, the Group has over 40 years of experience in the wind power equipment manufacturing sector. In respect of wind power gear box transmission equipment, the Group targets to expand its product scale, diversify its product mix and produce products applicable to low wind speed. In addition to bulk export to the United States, it will strive to expand into Europe, and emerging markets such as India and Brazil so as to constantly expand its market share and customer base. The Group supplied 83 units of 3 MW wind power gear boxes to its customers in 2012. It is rare in the sector that the Group was able to significantly increase its export of wind power products amid such a gloomy market in 2012, which indicates that our measures to improve product quality, control costs and promote sales have come to fruit and we were able to respond to unfavourable environment arising from economic recession and industry consolidation. The Group also established good cooperation with renowned domestic and international wind turbine manufacturers, including GE Energy, Nordex, Vestas, Repower, Hitachi, Alstom, Suzlon, Goldwind (金風科技), Sinovel (華鋭風電), Guangdong Mingyang (廣東明陽), Shanghai Electric (上海電氣), Guodian United (國電聯合) and Dongfang Electric (東方電氣). The Group has received wide recognition and trust for its quality products and services. We will continue to focus on stabilizing our product quality and increase international competitiveness and actively research and develop 5MW and 6MW wind power gear boxes, so as to further increase our market share.

Traditional products represent the second largest business segment of the Group. Amid fierce market competition, the Group will endeavour to consolidate its leading position in China by improving quality control system, further optimising marketing efforts and strengthening technological innovation.

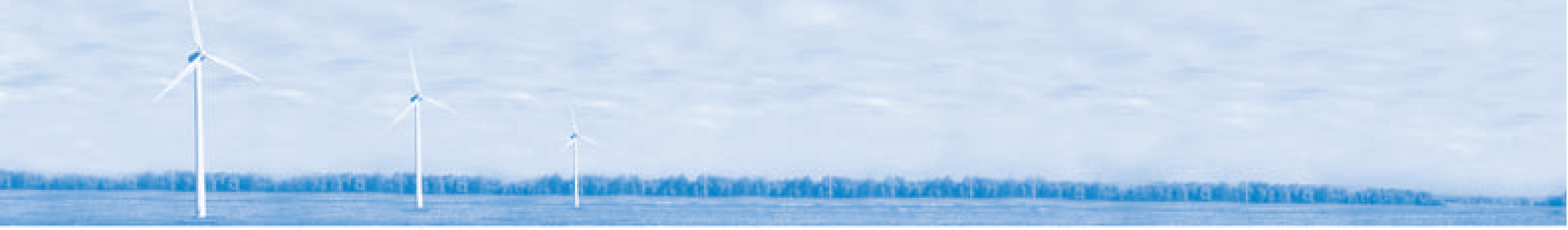
The Group also recorded solid performance in respect of transmission equipment for high-speed locomotives and urban light rail segments. In addition to an order of over 380 units of metro gear boxes by Qingdao Metro Line 3, it also entered into sales agreements in respect of Hong Kong Metro South District Line (香港地鐵南島線), and Singapore Metro CCL Line and NEL Line. The Group's rail transportation products have obtained the International Railway Industry Standard (IRIS) certificate, which has laid a solid foundation for the Group's rail transportation products to expand into high-end international railway markets. The Group will continue to expand three major business segments being high-speed railway, metro line and urban light rail and accelerate the research and development of light rail and high-speed railway gear equipment so as to enable the rail transportation transmission equipment to become a new source of growth of the Group.

Under the severe situation in 2012 when the production of marine products in the world decreased by approximately 70%, the marine gear transmission equipment business of the Group was also affected. The Group continued to focus on research and development of new products and market expansion, and nine series of marine products have been applied in all equipments of overall ship propulsion system. The propulsion equipment manufactured by Nanjing High Accurate Marine Equipment Co., Ltd. ("NGC-MARINE"), a wholly-owned subsidiary of the Group, is also applied in fishery patrols in the domestic sea area and is well known in the overall marine supplementary business. In addition, NGC-MARINE also made significant progress in cost control, recording a substantial decrease in consumption of supplementary materials and externally purchasing costs year on year in 2012. NGC-MARINE also cooperated with BORUSAN, an industrial baron in Turkey, to establish a sales and service outlet in Turkey, thus further enhancing the service area of the Group's products in the world and mitigating the concerns of customers on products after shipment, which is particularly important under the current international economic crisis and downturn shipbuilding situation. In the coming year, the marine gear transmission business of the Group will continue to enhance the product diversification and be well positioned for market recovery so as to set a solid foundation for future development.

While maintaining steady development of existing business, the Group will proactively "start a new undertaking" for diversified development to enhance the capacity of market risk resistance and further expand the corporate development space. For example, our Group's LED (Light Emitting Diode) products have been exported to America and Taiwan and received broad market recognition on their product quality; for coal mine machinery, various types of newly developed products of coal mine machinery have obtained the safety symbol certificates for mining products, and further negotiations with customers are proceeding in steady progress.

Looking forward to 2013, the wind power industry will not only benefit from the national policies of vigorous development of new energy and renewable energy, but also will see a bright future with steady growth of macro economies. The Group will continue to maintain a cautious and pragmatic operating strategy, adhere to the theory of focusing on product quality and reputation and actively capture the development opportunities resulting from the economic system reform and transformation of the pattern of economic development to realize steady and innovative development, while proactively consolidating the traditional business and strongly developing its four new segments, i.e., coal mine machinery, electric control, heavy duty high precision machine tools and LED.

Hu Yueming
Chairman
28 March 2013



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. For the year ended 31 December 2012, the Group recorded sales revenue of approximately RMB6,368,817,000 (2011: RMB7,120,712,000), representing a decrease of approximately 10.6% from 2011. The gross profit margin was approximately 24.4% (2011: 25.5%). Profit attributable to owners of the Company was approximately RMB138,426,000 (2011: RMB556,974,000), representing a decrease of 75.1% from 2011. Basic and diluted earnings per share attributable to the owners of the Company were both amounted to RMB0.102.

Principal business review

1. **Wind gear transmission equipment**

   Great progress has been made in the research and development of large wind gear transmission equipment

   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 power gear transmission equipment business decreased by approximately 17.1% to approximately RMB3,951,965,000 (2011: RMB4,769,523,000) as compared with last year. The decrease was mainly attributable to the decrease of orders as the recovery of world economy is still slow and the consolidation of domestic wind power industry is not completed.

   The Group is a leading supplier of wind gear transmission equipment in the PRC. By leveraging its strong research, design and development capabilities, the Group's research and development has achieved good results. Of these, the 1.5MW and 2MW wind power gear transmission equipment has been provided to domestic and overseas customers in bulk. The product technology has reached an international advanced technical level and is well recognised by customers of the Group. In addition, the Group has achieved significant progress in the research and development of 3MW wind power gear transmission equipment which will facilitate the significant breakthroughs of its business. During the Period under Review, the Group delivered 83 sets of 3MW wind power transmission equipment to customers and signed contracts with certain major wind turbine manufacturers in the PRC to conduct research on 5MW and 6MW wind power gear box.

   Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Energy, Nordex, Vestas, REpower, Hitachi, etc. With the Group's increasingly globalised operation, major overseas wind power equipment manufacturers such as Alstom Wind and Suzlon have also become the overseas customers of the Group.

2. **Marine gear transmission equipment**

Actively expand the domestic market

Marine gear transmission equipment is one of the Group's products in recent years. The Company is a leading enterprise in Asia specialised in research and development, manufacture and services of marine equipment. Its major products are marine propeller and transmission equipment sets including controllable pitch propellers (maximum diameter of 6.8m), fixed pitch propeller (maximum diameter of 11m), azimuth thruster, tunnel thruster, standard marine gear box and non-standard marine gear box, hydraulic coupling, spiral bevel gears and stern tube. The technologies and performance of its products are up to the international advanced level. Various products have made their debuts in the domestic market. Based on its product concept of "all-in-one", the Company provides a full range of product series, including gear box, propeller, coupling, electric control system, hydraulic system. During the Period under Review, the Company participated in the China International Marine Industry Exposition held in Nanjing International Exposition Center (南京國際博覽中心), which further strengthened the Company's marine cooperation and exchange of experience with international enterprises. As such, the Company was able to establish a solid foundation for the expansion of its products into the international high-end marine market. In the face of the current global financial crisis, the Company is actively expanding its coverage in the domestic market by diversifying the product portfolio of its marine transmission equipment.

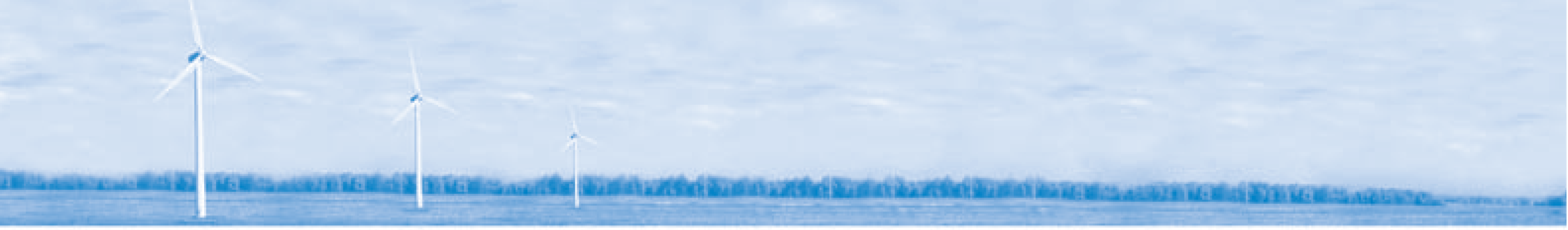
As the global economy has not fully recovered, during the Period under Review, turnover of marine gear transmission equipment decreased to approximately RMB250,940,000 (2011: RMB253,571,000), representing a decrease of 1.0% over last year.

3. **Transmission equipment for high-speed locomotives and urban light rails**

Achievements in the research and development and promising market potential

The use of high-speed trains, metros and urban light rail systems as environmentally-friendly means of transportation has become a major global trend. It is believed that the industry has promising potential. The development of intercity transportation in the PRC, one of the most densely populated countries in the world, will provide a tremendous market for manufacturers of high-speed locomotives and urban light rail transportation systems. The high-speed railway transportation network in Europe is expected to expand twofold by 2020. In order to capture this tremendous business opportunity, the Group conducted research and development of transmission equipment for high-speed locomotives, metros and urban light rails. During the Period under Review, the products were applied to metros of Beijing, Shanghai, Nanjing and Shenzhen. Characterised by their high performance, compact structure, low noise pollution and easy maintenance, the rail transportation products of the Group are well-received and highly recognised by its peers. Their domestic and overseas orders also increased significantly. The Group will endeavour to further expand the domestic and overseas markets to make it a new motivator for the revenue growth of the Group.

In the Period under Review, such business generated sales revenue of approximately RMB80,056,000 for the Group (2011: RMB51,046,000), increased by 56.8% over last year.



4. Traditional transmission products

Maintain its position as a major supplier of traditional transmission product in the market

The Group's traditional gear transmission equipment products are mainly provided for customers from various industries including metallurgy, construction materials, traffic, transportation, petrochemicals, aerospace and mining. During the Period under Review, sales of gear transmission equipment for bar-rolling, wirerolling and plate-rolling mills and other products increased by 35.2% and 31.8% to RMB541,112,000 (2011: RMB400,144,000) and RMB614,775,000 (2011: RMB466,328,000), respectively. Sales of high-speed heavy-load gear transmission equipment, general purpose gear transmission equipment and gear transmission equipment for construction materials amounted to RMB8,013,000 (2011: RMB23,282,000), RMB91,067,000 (2011: RMB135,188,000) and RMB474,064,000 (2011: RMB700,863,000), representing decreases of 65.6%, 32.6% and 32.4% respectively.

Due to the worsening global economy and the PRC government's monetary tightening policies for curbing its overheating economy, the Group reduced prices of certain traditional transmission products accordingly. By leveraging its research and development technologies, the Group focused on the development of energy-saving and environmentally-friendly products. New products were also launched to facilitate the development strategies. As a result, the Group remained as one of the major suppliers of traditional transmission products in the market.

During the Period under Review, the successful trial run of installed metallurgy product series and construction material product series of the Group in Sweden and Turkey respectively speeded up the Group's overseas market expansion.

5. Computer numerical controlled ("CNC") machine tool products

CNC machine tool products industry

Equipment manufacturing is a pillar industry of the national economy. Independent development of the equipment manufacturing industry is one of the strategic objectives of the "Eleventh Five-Year Plan" and the "Twelfth Five-Year Plan". "Machine tool is the core equipment of the equipment manufacturing industry. The modernisation of the equipment manufacturing industry of China depends on the development of its machine tool industry. We must enhance the manufacturing capacity of our machine tool, in particular CNC machine tool, to support the development of equipment manufacturing industry," said Wen Jiabao, the then Premier of the State Council. Besides, the price for heavy machine tools is very high as the market is dominated by few international manufacturers. The Group intends to take the opportunity to develop precise and efficient general and special heavy duty machine tool products to explore the high-end market and provide advanced machine tools for the equipment manufacturing industry.

In order to seize opportunities of the developing market of CNC machine tools, the Group has manufactured its own CNC system and CNC machine tool products through acquisition and research and development. The Group possessed the proprietary intellectual property rights of its self-developed CNC system and machine tools and its products include vertical machining centre and five-axis CNC milling machine such as high speed CNC engraving and milling machine. Its high-end machine tools technology was further strengthened by capitalising on the technology platform of the Group.

During the Period under Review, the Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB181,306,000 (2011: RMB61,450,000), representing an increase of 195.0% over last year.

6. Diesel engine product industry

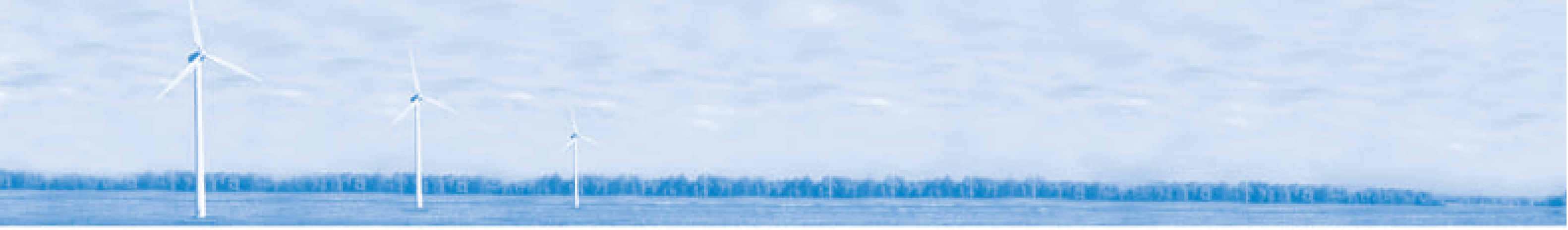
In order to optimise the application of marine gear transmission equipment, the Group acquired Nantong Diesel Engine Co., Ltd. ("Nantong Diesel Engine"), which is located in Nantong city of Jiangsu province that lies in developed Yangtze delta.

Nantong Diesel, formerly known as Nantong Diesel Engine Factory, was first established in 1958. The company was reformed as a state-owned stock company approved by Organization Reformation Committee of Jiangsu Province in 1993 and then as a non-state-owned stock company in 2003 based on withdrawal of state-owned capital stock. The company was strategically restructured with China High Speed Transmission Equipment Group Co., Ltd. in 2010 as a subsidiary of the Group.

The products of Nantong Diesel cover a wide range of models, including marine diesel engines, diesel engines for power generation and gas engines.

Nantong Diesel Engine possessed the proprietary intellectual property rights and was recognised as "Famous Brand Product of China Fishery Vessel & Machine Field", "China's Key New Product", "Jiangsu Province Key Protective Product" and "Jiangsu Province Credit Product". It was also awarded "Scientific & Technological Progress Prize of State Mechanical Industry".

During the Period under Review, the Group's sales revenue from diesel engines amounted to approximately RMB175,519,000 (2011: RMB259,317,000), representing a decrease of 32.3% over last year.



LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB1,462,919,000 (2011: RMB1,124,175,000), representing an increase of 30.1% over last year. Overseas sales accounted for 23.0% to total sales (2011: 15.8%), representing an increase of 7.2% to total sales over the previous year. At present, the overseas customer base of the Group extends to the U.S., India, Japan and Europe. As the economies in Europe and the U.S. were yet to be fully recovered, the Group introduced different types of products in order to extend its coverage to the overseas market.

PATENTED AND CERTIFICATION PROJECTS

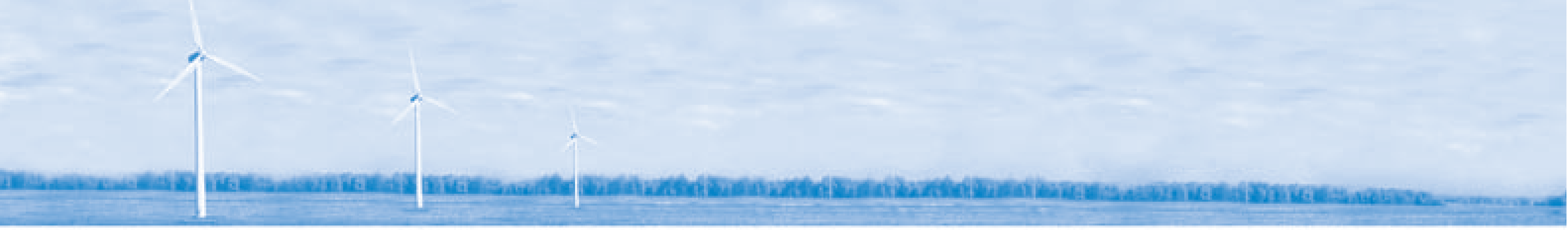
The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging its advanced technology and premium quality, the Group has obtained over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As at 31 December 2012, the Group was granted 205 patents in total, of which 38 new patents were granted in 2012. Besides, the Group has applied for 38 patents which are pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2008 quality management system certification, ISO14001:2004 environmental management system certification and GB/T28001-2001 Occupational Health and Safety Management System Certification. NGC-MARINE, a subsidiary of the Company, has strictly complied with international standards and the requirements of various classification societies in designing and manufacturing marine products. Its products have passed the inspection of and obtained certifications from classification societies such as China Classification Society (CCS), Bureau Veritas (BV) in France, Germanischer Lloyd (GL) in Germany, American Bureau of Shipping (ABS) in the United States, Lloyd's Register of Shipping (LR) in the UK, Registro Italiano Navale (RINA) in Italy, Det Norske Veritas (DNV) in Norway, Russian Maritime Register of Shipping (RMRS) in Russia and Nippon Kaiji Kyokai (NK) in Japan. The wind power products manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), a subsidiary of the Company, have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (GL), DEWI-OCC Offshore and Certification Centre in Germany and the rail transportation products have passed the IRIS (an international standard of the rail road industry) certification. The coal mining machinery products of Zhong-Chuan Heavy Duty Equipment Co., Ltd., ("Zhong-Chuan Heavy Duty") a subsidiary of the Company, have passed the certification by the safety mark centers of mining products in the safety mark member countries.

FINANCIAL PERFORMANCE

Affected by the market volatility and various external factors, the Group's sales revenue decreased by 10.6% to approximately RMB6,368,817,000 during the Period under Review.

Revenue

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
High-speed Heavy-load Gear Transmission Equipment	**8,013**	23,282
Gear Transmission Equipment for Construction Materials	**474,064**	700,863
General Purpose Gear Transmission Equipment	**91,067**	135,188
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	**541,112**	400,144
Other products	**614,775**	466,328
Traditional Products - Subtotal	**1,729,031**	1,725,805
Wind Gear Transmission Equipment	**3,951,965**	4,769,523
Marine Gear Transmission Equipment	**250,940**	253,571
Transmission Equipment for High-speed Locomotives and Urban Light Rails	**80,056**	51,046
CNC Products	**181,306**	61,450
Diesel Engine Products	**175,519**	259,317
Total	**6,368,817**	7,120,712



MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

The Group's sales revenue for 2012 was approximately RMB6,368,817,000, representing a decrease of 10.6% as compared with last year. The decrease was mainly due to the decrease in orders from customers for wind power gear box products and the steady average selling prices of wind power gear box equipment during the Period under Review. As a result, sales revenue decreased from approximately RMB4,769,523,000 in 2011 to approximately RMB3,951,965,000 for the Period under Review, representing a decrease of 17.1%. During the Period under Review, the Group's sales revenue from traditional transmission products was approximately RMB1,729,031,000, representing an increase of 0.2% as compared with last year. During the Period under Review, sales revenue of transmission equipment for high-speed locomotives and urban light rails, and CNC products amounted to approximately RMB80,056,000 and RMB181,306,000, representing an increase of 56.8% and 195.0% as compared with last year respectively. During the Period under Review, the Group's sales revenue from diesel engine products and marine gear transmission equipment was approximately RMB175,519,000 (2011: RMB259,317,000) and RMB250,940,000 (2011: RMB253,571,000) respectively.

Gross profit margin and gross profit

The Group's consolidated gross profit margin was approximately 24.4% for 2012 (2011: 25.5%), representing a decrease of 1.1% as compared with last year. The decrease was mainly attributable to the drop in average selling prices of traditional gear box products of the Group. Consolidated gross profit for 2012 reached approximately RMB1,553,354,000 (2011: RMB1,818,796,000), representing a decrease of 14.6% as compared with last year.

Other income, other gains and losses

The total amount of other income of the Group for 2012 was approximately RMB215,192,000 (2011: RMB231,613,000), representing a decrease of 7.1% as compared with last year. Other income is mainly comprised of bank interest income, government grants and sales of scraps and materials.

During the Period under Review, other gains and losses recorded a net loss of approximately RMB2,354,000, being net loss on foreign exchange (2011: a net loss of RMB70,078,000, in which, fair value losses on convertible bonds and losses on derivative financial instruments were RMB88,234,000 and net gains on foreign exchange were RMB18,156,000).

Distribution and selling costs

The distribution and selling costs of the Group for 2012 were approximately RMB278,779,000 (2011: RMB254,278,000), representing an increase of 9.6% as compared with last year. The increase was mainly attributable to the increase in product packaging, promotion expenses and staff costs. The percentage of distribution and selling costs to sales revenue for the Period under Review, was 4.4% (2011: 3.6%), representing an increase of 0.8% to sales revenue as compared with last year.

Administrative expenses

Administrative expenses of the Group decreased from approximately RMB527,057,000 for 2011 to approximately RMB502,090,000 for 2012, mainly due to the effective allocation of human resources at its subsidiaries, and the decrease in amortisation of intangible assets. The percentage of administrative expenses to sales revenue increased by 0.5% to 7.9% as compared with the last year.

Other expenses

Other expenses of the Group for 2012 were RMB88,518,000 (2011: RMB123,231,000), which was mainly provision for bad debts. The decrease in other expenses was mainly due to making less impairment losses on trade receivables.

Finance costs

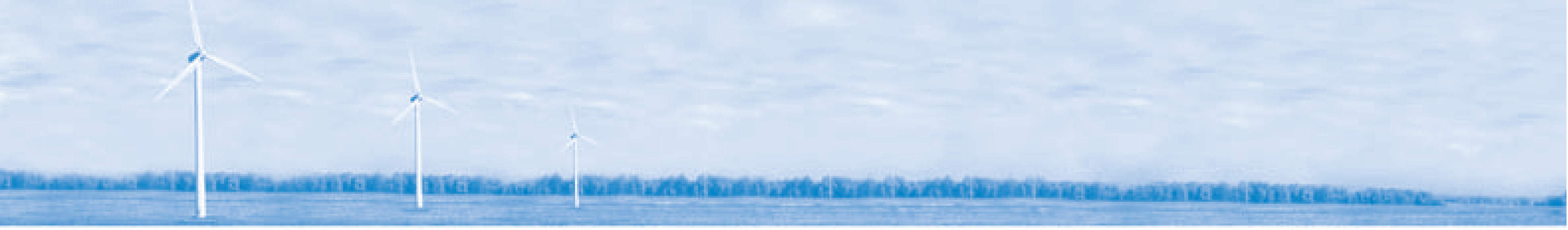
In 2012, the finance costs of the Group was approximately RMB523,878,000 (2011: RMB323,399,000), representing an increase of 62.0% as compared with last year, which was mainly due to the significant increase in total amount of bank loans for satisfying the development needs of new businesses and maintaining sufficient liquidity.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2012, the equity attributable to owners of the Company amounted to approximately RMB7,539,438,000 (31 December 2011: RMB7,472,581,000). The Group had total assets of approximately RMB 19,882,234,000 (31 December 2011: RMB18,400,984,000), representing an increase of RMB1,481,250,000, or 8.0%, as compared with the beginning of the year. Total current assets of the Group were approximately RMB10,813,173,000 (31 December 2011: RMB10,253,113,000), representing an increase of 5.5% as compared with the beginning of the year and accounting for 54.4% of total assets (31 December 2011: 55.7%). Total non-current assets were approximately RMB9,069,061,000 (31 December 2011: RMB8,147,871,000), representing an increase of 11.3% as compared with the beginning of the year and accounting for 45.6% of the total assets (31 December 2011: 44.3%).

As at 31 December 2012, total liabilities of the Group were approximately RMB12,137,671,000 (31 December 2011: RMB10,778,949,000), representing an increase of RMB1,358,722,000 as compared with the beginning of the year. Total current liabilities were approximately RMB10,644,796,000 (31 December 2011: RMB7,997,949,000), representing an increase of 33.1% as compared with the beginning of the year whereas total non-current liabilities were approximately RMB1,492,875,000 (31 December 2011: RMB2,781,000,000), representing a decrease of approximately 46.3% as compared with the beginning of the year.

As at 31 December 2012, the net current asset of the Group was approximately RMB168,377,000 (31 December 2011: RMB2,255,164,000), representing a decrease of RMB2,086,787,000, or 92.5%, as compared with the beginning of the year.



As at 31 December 2012, total cash and bank balances of the Group were approximately RMB4,302,214,000 (31 December 2011: RMB3,427,514,000), including pledged bank deposits of RMB1,897,712,000 (31 December 2011: RMB1,252,922,000).

As at 31 December 2012, the Group had total bank loans of approximately RMB8,737,357,000 (31 December 2011: RMB7,618,457,000), of which short-term bank loans were RMB7,449,119,000 (31 December 2011: RMB4,991,382,000), accounting for approximately 85.3% (31 December 2011: 65.5%) of the total bank loans. The short-term bank loans are repayable within one year. The fixed and floating interest rates of the Group's bank loans for 2012 ranged from 1.30% to 7.64% per annum.

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the net current asset of RMB168,377,000, the directors of the Company believe that the Group will have a sound financial position 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 58.6% as at 31 December 2011 to 61.0% as at 31 December 2012, mainly due to the increase in bank loans.

Capital structure

The Group's operations were financed mainly by shareholder's equity, bank facilities 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 loans and cash and cash equivalents were mainly denominated in Renminbi, U.S. dollars and Hong Kong dollars. The Group's bank borrowings denominated in Hong Kong dollars and U.S. dollars as at 31 December 2012 amounted to approximately HKD1,039,896,000 and USD154,975,000 respectively.

On 23 March 2012, Nanjing High Speed, a wholly-owned subsidiary of the Group, issued short-term commercial paper of RMB800,000,000. The short-term commercial paper carries an interest rate of 6.6% per annum and has been repaid in 2013. The Group has used the funds raised for repayment of bank loans and as its working capital. On 18 February 2013, Nanjing High Speed further issued short-term commercial paper of RMB700,000,000. The short-term commercial paper carries an interest rate of 5.3% per annum and shall be repayable on 20 February 2014. It is intended that RMB100,000,000 of the funds raised will be used for reimbursement of its working capital and RMB600,000,000 for replacement of bank loans, which is mainly aimed to repay part of the loans of higher cost so as to optimize the financial structure, further reduce the finance costs, enhance our profitability and strengthen our corporate competitiveness.

During the Period under Review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate in order to control the risk of interest rate fluctuation of such bank borrowings. As at 31 December 2012, interest rate risk of the Group's bank borrowings of HKD787,500,000 and USD12,375,000 was hedged by using interest rate swaps which converted floating interest rate to fixed interest rate.

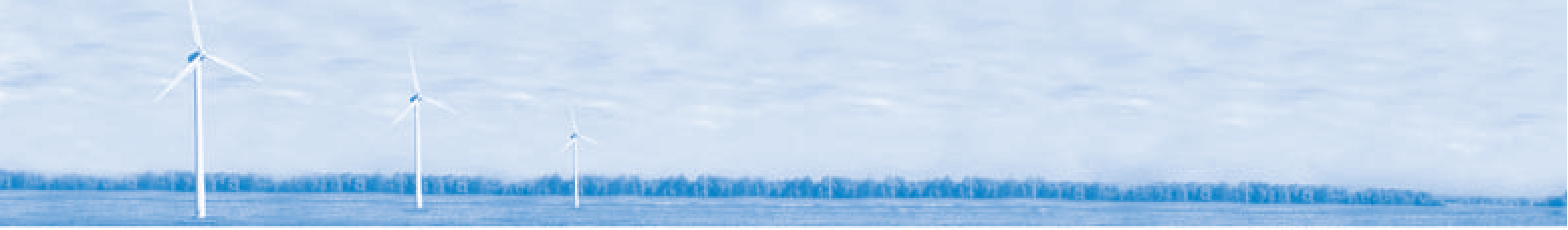
During the Period under Review, the Group's borrowings with fixed interest rates to total borrowings was approximately 49.3%, with fixed interest rate ranging from approximately 4.70% to 7.64%.

PROSPECTS

In 2012, the global economy was affected by the eurozone debt crisis. Investors were worried about the global economic outlook, resulting in uncertainties in the global economy including the stock market during the Period under Review. In addition, in light of the mixed economic data of some fast-growing emerging markets, investors came to worry that the global economic growth may slow down as the impacts of the dampened eurozone economy are beginning to spread all over the world. Moreover, the Chinese government also lowered its economic growth forecasts, which raised concerns from different sectors over the economic growth momentum in the future.

In 2012, the wind power industry was still exposed to many challenges. During the Period under Review, the growth of global economy was slowdown, with many industries in the PRC, including coal, steel and photovoltaic industry, were cooled. Under such a general environment, the wind power industry inevitably and gradually commenced its adjustment period. In addition to the on grid connection issue of wind power generation and price competition among manufacturers of wind turbine equipment, in 2012, the phenomenon of restriction on grid connection and idle of wind power generating units in the "Three North Regions" (ie. the Northeast and Northwest regions and Northern China) moved further. The contradiction between wind power and conventional energy, especially contradiction with thermal power units during the heating period, and the operation system of conventional power system became the bottleneck for the development of wind power industry at that time.

During such industry adjustment, the Group will adhere to its practice of giving top priority to quality and continue the manufacture of large and diversified wind power transmission equipment. The Group aims to consolidate its position in the industry through enhancing its advanced research and development capabilities, producing quality products, expanding its businesses and optimising its product mix. Based on the mainstream development trend of large-scale wind turbine, the Group will accelerate the development of 5MW and 6MW wind turbine gearbox transmission equipment aside from providing 3MW gearboxes to customers. In addition, the trust and support of its overseas customers will continue to boost the Company's wind power transmission equipment exports. During the Period under Review, the proportion of the export sales revenue to the total revenue increased by approximately 7.2%.



In 2012, the installed capacity of onshore wind power increased 15,900,000 KW, representing one-third of the increased portion in the world, and ranking the first place for four consecutive years in the world. Pursuant to the 12th Five-Year Plan for renewable energy issued by National Energy Administration, it is expected that China will build 5GW of offshore wind power and form an industrial chain for offshore wind power by 2015. Subsequent to 2015, the offshore wind power in China will step into scale development stage and its technology will reach international advanced standard. The offshore wind power in China will reach to 30GW in 2020. In the long run, the adjustment and transformation and upgrading in wind power industry will inevitably accumulate strength for the arrival of the next round of opportunities. The industry consolidation will solve the problem of excess production capacity and improve the quality of the wind turbine. Moreover, the enhancement of wind power technology and the policy support of the State on developing new energy will also drive the industry out of shadows.

Besides, the Group is also actively developing its business of railway and marine transmission equipment. For the railway business, high-speed locomotives, subways and urban light rails are a global synonym of environmentally friendly means of transportation. They have promising industrial development prospects. Popularisation of highspeed railways in China is a strong driving force for the markets of high-speed locomotives, subways and urban light rails. It will also facilitate the Group in achieving its goal of rapid increase in railway earnings in the future. The Group has supplied subway transmission equipment in bulk for domestic and foreign metro corporations. For the marine business, marine transmission equipment has been one of the major products of the Group in recent years. As one of the largest ship propulsion system manufacturers in China, the Group has strived to optimise and upgrade its product mix. It is capable of providing customers with a full range of products and services. It is believed that when the global economy rebounds, the Company can promptly seize market opportunities.

In addition to transmission equipment, the Group also made significant progress in the development of new businesses. A number of newly developed coal mine machinery products have obtained the safety symbol certificate of mining products, and the Group has delivered the products to potential customers for testing. Customers' feedback gave us confidence in our Group's new products. Further negotiation about cooperation is now in steady progress.

High precision and heavy machine tools are also the Group's key development products in the future. The development of these high-tech products of high speed, high precision, high reliability, multi-axis, high complexity and advanced intelligence will facilitate product technological upgrade and enhance the competitiveness of its self-developed products in domestic and overseas markets.

The Group will continue to conduct research on mechanical and electrical integration to expand market sales of its products. In order to enhance its added value, the Group will focus on the development of power transmission equipment such as electric control system and transducers for providing one-stop services to customers.

The Group established subsidiaries for the production of sapphire substrate which is the upstream production process of LED. This process requires key technology and provides the highest added value in the industry chain. Currently, the subsidiaries operates well.

Looking forward to 2013, given the insignificant global economic recovery and various uncertainties, such as the unresolved debt crisis in Europe, the Group's business will remain susceptible to the economic environment. However, in the short term, the Group will be prudent in making investment decisions. By ensuring a sound financial position, the Group will continue to enhance its comprehensive competitiveness through actively developing new businesses and expanding into overseas markets.

PLEDGE OF ASSETS

Save as disclosed in note 40 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2012.

CONTINGENT LIABILITIES

As at 31 December 2012, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 31 December 2012, the Group had expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment and land use right, and outstanding commitments payable under non-cancellable operating lease in respect of rented land and premises of approximately RMB999,098,000 and RMB9,773,000 respectively (2011: RMB870,404,000 and RMB9,712,000). Details are set out in notes 39 and 41 to the consolidated financial statements respectively.

FOREIGN EXCHANGE RISK

The Group's operations are mainly conducted in the PRC. With the exception of export sales and the imported equipment, spare parts and materials which are transacted in U.S. dollars and Euros, most of the Group's revenue and expense are denominated in Renminbi. Therefore, the Board of the Company is of the view that the Group's operating cash flow and liquidity during the Period under Review are not subject to significant foreign exchange rate risks. The Group has not used any foreign currency derivatives to hedge against the exposure in foreign exchange.

The Group's bank borrowings denominated in Hong Kong dollars and U.S. dollars as at 31 December 2012 amounted to approximately HKD1,039,896,000 and USD154,975,000 respectively. Therefore, the Group may be exposed to certain foreign exchange rate risks.

The net loss of foreign exchange recorded by the Group during the Period under Review was approximately RMB2,354,000 (2011: a net gain of RMB18,156,000), which was due to the appreciation of Renminbi against major foreign currencies during the Period under Review. In light of the above, the Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to exchange risks in 2012.

INTEREST RATE RISK

The loans of the Group are mainly sourced from bank borrowings and short-term commercial paper. Therefore, the benchmark lending rate announced by the People's Bank of China, the LIBOR and HIBOR will have a direct impact on the Group's cost of debt and future changes in interest rate will also have certain impacts on the Group's cost of debt. The Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels. During the Period under Review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate which ranges from 2.80% to 2.93% per annum in order to control the risk of interest rate fluctuation of such bank borrowings.

EMPLOYEES AND REMUNERATION

As at 31 December 2012, the Group employed approximately 9,267 employees (2011: 7,127). Staff cost of the Group for 2012 approximated to RMB899,898,000 (2011: RMB866,837,000). The cost included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

The Group's criteria in relation to the determination of directors' remuneration take into consideration factors including but not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

The salary levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial performance. In addition to salaries, the Group provides housing allowances to some of its employees. The Group also offers incentive programmes to encourage its employees to take initiatives and rewards employees who have made valuable contributions or achieved technical breakthroughs. The Group's employees are rewarded for their creativity achievements in technologies and technical skills, management of information, product quality and enterprise management.

The Group has adopted incentive programmes (including the Share Option Scheme as set out in note 37) to encourage employee performance and a range of training programmes for the development of its staff.

PENSION SCHEME

The employees of the Group are members of state-managed pension scheme operated by the local government in China. The Group is required to contribute a specific percentage of their payroll costs to the pension scheme for the funding of the scheme. The sole responsibility of the Group in respect of this pension scheme is making specific contribution to this scheme.

SIGNIFICANT INVESTMENT HELD

Save as disclosed herein, there was no significant investment held by the Group during the Period under Review.

MATERIAL ACQUISITION AND DISPOSAL

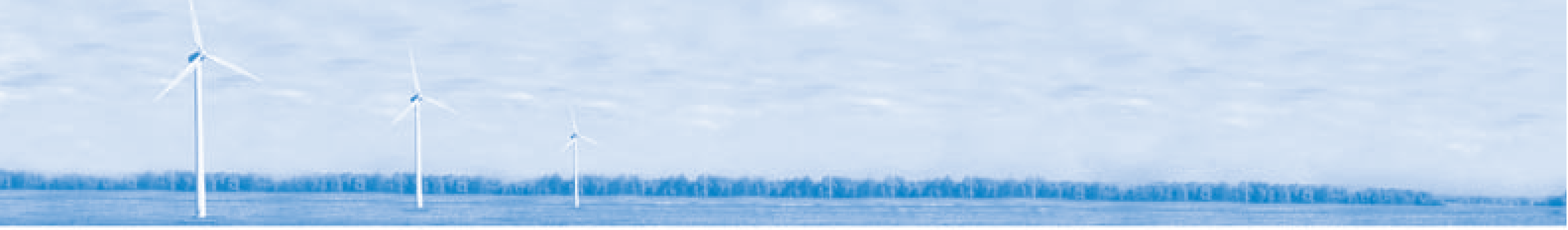
During the Period under Review, save as disclosed herein, there was no material acquisition or disposal of subsidiaries and associated companies.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

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

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

On 18 February 2013, Nanjing High Speed, a wholly-owned subsidiary of the Group, issued short-term commercial paper of RMB700,000,000. The short-term commercial paper carries an interest rate of 5.3% per annum and shall be repayable on 20 February 2014. The Group plans to use the funds raised for repayment of bank loans and as its working capital.



DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of directors and senior management are listed as follows:

EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 63, is the Chairman, Chief Executive Officer and executive Director of the Company. Mr. Hu is a university graduate and was graduated from Fudan University majoring in laser technology in 1977. Mr. Hu is a senior engineer. He has more than 30 years of experience in the management of machinery and industrial enterprises and has served as the head of various state-owned enterprises such as Nanjing Engineering Equipment Factory（南京工藝裝備廠）and general manager of various foreign invested enterprises including Nanjing Atlas Copco Construction Machinery Ltd. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. He has been the chairman and the general manager of Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("NGC"), the subsidiary of the Group, since March 2007. Mr. Hu also holds directorship in certain subsidiaries and associates of the Group (see the note below). Mr. Hu is an expert on mechanical transmission equipment technology and business management. He is also the vice president of the China New Energy Generation Network（中國新能源發電網）, a council member of China General Machine Components Industry Association（中國機械通用零部件工業協會）, the vice chairman of Gear Manufacturers Association（齒輪專業協會）of China General Machine Components Industry Association（中國機械通用零部件工業協會）and chairman of Nanjing Renewable Energy Association（南京可再生能源協會）. He has been awarded the "National May 1 Labour Medal"（全國五一勞動獎章）and title of "The 4th Outstanding Entrepreneur of the Machinery Industry"（第四屆全國機械工業明星企業家）. He is also one of the members of the group of major shareholders of the Company (the "Management Shareholders").

Note: Including subsidiaries of Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate"), Nanjing High Speed, Nanjing Gaote Gearbox Manufacturing Co., Ltd. (formerly known as Nanjing Ningjiang Gearbox Manufacturing Co., Ltd.) ("Nanjing Gaote"), Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("Dongalloy"), Nanjing Ningkai Mechanical Co., Ltd. ("Ningkai"), Nanjing Marine, Nanjing Ninghongjian Mechanical Co., Ltd. ("Ninghongjian"), Nanjing High Drive Automation Equipment Co., Ltd. ("High Drive"), Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. (formerly known as Nanjing Sky Electronic Enterprise Co., Ltd.)("Gaochuan Sky"), Nantong Diesel, Zhong-Chuan Heavy Duty, Zhong-Chuan Heavy Duty Machine Tool, Nanjing Jingjing Photoelectric Science & Technology Co. Ltd. ("Nanjing Jingjing"), AE&E Nanjing Boiler Co., Ltd. (formerly Known as Nanjing Boiler Works) ("AE&E Nanjing"), NGC Transmission Equipment (America), Inc. ("NGC (US)"), Eagle Nice Holdings Limited ("Eagle Nice") and China Transmission Holdings Limited ("China Transmission Holdings").

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Yongdao, aged 50, is an executive Director of the Company. Mr. Chen is a university graduate. He obtained a bachelor's degree from Jiangsu Institute of Technology majoring in metal material and heat treatment in 1983 and a master's degree from Nanjing University of Science and Technology majoring in engineering in 2007. He is a senior engineer. He served as the deputy head of the inspection and gauging section, head of the production allocation section of the factory and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and the deputy general manager of NGC since March 2007. Mr. Chen also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing Marine, Dongalloy, Ningkai, High Drive, Nantong Diesel, Zhenjiang Tongzhou Propeller Co., Ltd. ("Zhenjiang Tongzhou"), China Transmission Holdings and NGC Marine Propulsion Southeast Asia Ptd. Ltd. ("NGC Marine"). He is also the general manager of Nanjing High Accurate. Mr. Chen is an expert on heat treatment of metal material and has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment and enterprise management for nearly 30 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques. He is also one of the Management Shareholders.

Mr. Lu Xun, aged 58, is an executive Director of the Company. Mr. Lu graduated from Nanjing Aeronautical Institute majoring in managerial engineering in 1991. He also attended and finished postgraduate courses. He is a senior engineer. He worked as the deputy head of the quality assurance section, deputy head of the technology section, head of the operational planning section, deputy Chief Economist, head of the operational planning division and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and deputy general manager of NGC since March 2007. Mr. Lu also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, High Drive, Nantong Diesel, Eagle Nice and China Transmission Holdings. Mr. Lu is an expert on marketing management for mechanical transmission equipment and has engaged in the technology and marketing management of mechanical transmission equipment for more than 25 years and has extensive experience in marketing management and client resources. He is also one of the Management Shareholders.

Mr. Li Shengqiang, aged 59, is an executive Director of the Company. Mr. Li is a university graduate. He graduated from Jiangsu Administration Institute majoring in administrative management in 1992. He has served as a deputy party secretary of the tools section, Chairman of the Workers' Union and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and deputy general manager of NGC since March 2007. Mr. Li also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing Gaote, Ningkai, High Drive, Zhong-Chuan Heavy Duty, Zhong-Chuan Heavy Duty Machine Tool, AE&E Nanjing, Eagle Nice and China Transmission Holdings. He is also the general manager of Nanjing Gaote. Mr. Li has been engaged in the enterprise management for nearly 30 years and has extensive experience in mechanical transmission equipment production management. He is also one of the Management Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Jianguo, aged 43, is an executive Director of the Company. Mr. Liu is a university graduate. He graduated from Shanghai Jiaotong University with a bachelor's degree majoring in mechanical technology and equipment in 1990. He is a senior engineer. He has served as deputy head and head of the research centre, assistant to general manager, acting chief engineer and chief engineer of Nanjing High Speed Gear Factory. He has also become a director and deputy general manager of NGC and chief engineer of the Group since March 2007. Mr. Liu holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing Gaote, Ningkai, Ninghongjian, High Drive, NGC (US)and China Transmission Holdings. He is also the general manager of Nanjing High Speed. Mr. Liu has engaged in the research and development and design of gear transmission products and enterprise management for more than 20 years. He took charge of the design and research and development of various major new products of the Company such as wind power generation, steel and cement, and has received a number of awards including the certificate of expert with outstanding contribution in the gear industry in the PRC, Science and Technology Awards for the PRC Mechanical Industry (FD1660-type Wind Power Generation Gear Box) and Jiangsu Provincial Science and Technology Advancement Award. He is also one of the Management Shareholders.

Mr. Liao Enrong, aged 52, is an executive Director of the Company. Mr. Liao is a postgraduate. He graduated from Anhui Institute of Technology with a bachelor's degree majoring in metal material and heat treatment in 1984. He also attended and finished courses of investment economics in the Graduate School of the Chinese Academy of Social Sciences. He is a senior engineer. He has served as deputy head and head of the workshop, head of the technological reform section, deputy chief engineer, head of the enterprise management section, assistant to general manager of Nanjing High Speed Gear Factory. Mr. Liao has been a director and deputy general manager of NGC since March 2007. Mr. Liao also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Dongalloy, Ningkai, Nanjing Marine, Ninghongjian, High Drive, Gaochuan Sky, Zhong-Chuan Heavy Duty, NGC (US) and China Transmission Holdings. He is also the general manager of High Drive. Mr. Liao has experience in the heat treatment of metal material and has engaged in technology, investment and enterprise management for more than 25 years. He is also one of the Management Shareholders.

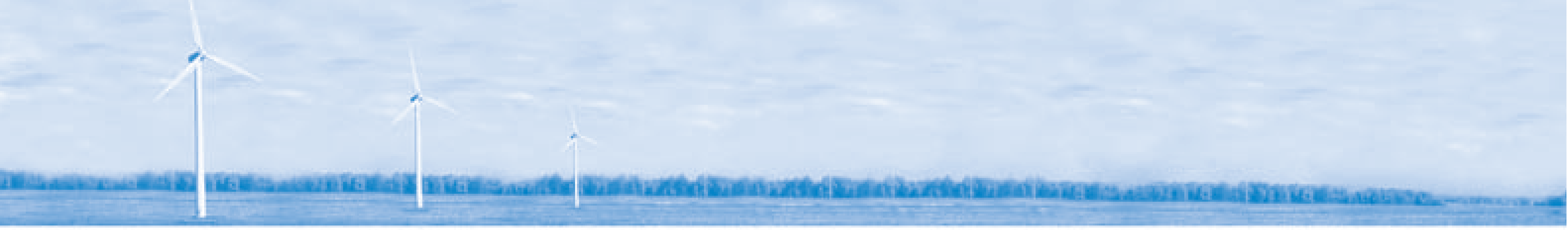
Mr. Jin Maoji, aged 59, is an executive Director of the Company. Mr. Jin is a university graduate. He graduated from Shanghai Mechanical Institute in 1986. He also attended and finished postgraduate courses. He is a senior economist. Mr. Jin joined Nanjing High Speed Gear Factory in 1970 and served as deputy head and head of workshop, head of human resources department and office head. He has served as director and vice general manager of NGC since May 2010. Mr. Jin also holds directorship of certain subsidiaries of the Group, namely, Nanjing High Accurate, High Drive, Zhong-Chuan Heavy Duty Machine Tool and China Transmission Holdings. He has engaged in management for over 30 years with extensive management experience. He is also one of the Management Shareholders of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xihe, aged 54, is an independent non-executive Director of the Company. He is a Doctor in accountancy. He graduated from the Central University of Finance and Economics (中央財經大學) majoring in accountancy in June 1990. He obtained professional accounting qualification recognized in the PRC in July 1999. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association. He is currently a professor at the Faculty of Accounting and Financial Management of Nanjing Normal University (南京師範大學), head of Accounting and Financial Development Research Centre of Nanjing Normal University (南京師範大學) and the deputy dean of Jinling Girl's College, Nanjing Normal University (南京師範大學). Mr. Jiang joined the Company on 8 June 2007 as independent non-executive Director. He is also an independent non-executive director of Jiangsu Gaochun Ceramics Company Limited, a company listed on the Shanghai Stock Exchange, and Jiangsu Qionghua High-Tech Company Limited (now known as Jiangsu Golden Material Technology Co., Ltd.), a company listed on the Shenzhen Stock Exchange.

Mr. Zhu Junsheng, aged 73, is an independent non-executive Director of the Company. He graduated from Nankai University in 1964. He engaged in technological development of the aviation industry from 1964 to 1984 and renewable energy management in government authorities from 1984 to 2000. Mr. Zhu is currently a vice president of the Chinese Renewable Energy Society, director of the Renewable Energy Professional Committee of the China Association of Resource Comprehensive Utilisation, honorary president of the wind machinery branch of the Chinese Farm Machinery Industrial Association and an executive member of the China Energy Research Society. He has extensive experience in the renewable energy industry, one of the markets that the Company strives to develop for its products. Mr. Zhu joined the Company on 8 June 2007 as independent non-executive Director.

Mr. Chen Shimin, aged 54, is an independent non-executive Director of the Company and holder of Ph. D. degree in Accounting. Mr. Chen graduated from Shanghai University of Finance and Economics and obtained a bachelor's degree and a master's degree in economics in 1982 and 1985 respectively. He also obtained a doctoral degree majoring in accounting from the University of Georgia, the United States, in 1992. He is a management accountant registered in the United States, member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. He is currently a professor of accounting, deputy dean of academic affairs of, and head of School of Master of Bussiness Management at China Europe International Business School. He is also a guest professor and Ph.D. supervisor of the School of Accounting, Shanghai University of Finance and Economics. He has extensive education and research experience in domestic and overseas financial accounting and management accounting. He taught in a number of universities in the PRC and overseas, including Shanghai University of Finance and Economics, Lingnan University in Hong Kong, Hong Kong Polytechnic University, Clarion University of Pennsylvania and University of Lousiana at Lafayette. Mr. Chen has published numerous articles related to researches on accounting in the PRC and the United States in renowned academic journals of the PRC and overseas. He was awarded with a number of academic awards and hosted research seminars in the PRC and overseas. He is also a contributing author in Asian Accounting Handbook and Accounting and Auditing in the People's Republic of China. Since 2005, Mr. Chen has been an executive editor of China Accounting and Finance Review. Mr. Chen joined the Company on 8 June 2007 as an independent non-executive director. Currently, Mr. Chen is an independent non-executive director of Shanghai Oriental Pearl (Group) Co., Ltd., a company listed on the Shanghai Stock Exchange, Hangzhou i-Cafe Information Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange, and Sun.King Power Electronics Group Limited, a company listed on the Stock Exchange, and an external supervisor of Shanghai Pudong Development Bank, a company listed on the Shanghai Stock Exchange.



DIRECTORS AND SENIOR MANAGEMENT

Ms. Jiang Jianhua (蔣建華), aged 48, is an independent non-executive Director of the Company and holder of Ph. D. degree in Management. Ms. Jiang graduated from Shanghai University of Finance and Economics with a bachelor degree, majored in international finance, in July 1986. From July 1996 to June 1999, she studied at Tianjin University of Finance and Economics and received a master degree of management. She studied and obtained a doctor degree of management from Nanjing Agricultural University from September 2006 to December 2008. She acted as the secretary of the Communist Party of China at the audit school of Nanjing Audit University from August 2006 to August 2007, and has been the dean of Nanjing Golden Audit School of Nanjing Audit University since July 2008. She has been an independent director of Nanjing Yunhai Special Metals Co., Ltd, a company listed on the Shenzhen Stock Exchange, since August 2012. From September 2008 to September 2010, she also was an independent director of Nanjing XWTEC Co., Ltd. (now known as Henan Dayou Energy Co., Ltd.), a company listed on the Shanghai Stock Exchange. From July 1986 to August 2006, she held various positions at Nanjing Audit University, including the head of finance teaching section, the assistant to department director, the deputy director of the finance department, the deputy dean of the finance school, a teaching assistant, lecturer, an associate professor and a professor. Ms. Jiang specialized in the areas of finance and accountancy and had written many articles and books and participated in a number research projects in these areas. She won several awards in relation to her academic and teaching excellence, including Candidate for Potential Young and Middle-aged Academic Leaders in the "Green and Blue Project" of Jiangsu Province, Candidate for Aspirants of "333 Project" of Jiangsu Province, Third Level. She joined the Company as an independent non-executive Director on 31 December 2012.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 50, is a chief financial officer and company secretary of the Company. He graduated from York University with a Bachelor of Arts degree majoring in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is a qualified accountant, associate member of the Australian Society of Certified Practising Accountants and a member fellow of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Company in June 2006 and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Group.

Ms. Zhou Jingjia, aged 49, is the financial controller of NGC. She graduated from Suzhou University majoring in accounting and is a member of the Chinese Institute of Certified Public Accountants and a qualified accountant. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. In January 2006, Ms. Zhou was transferred from Nanjing Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the regional manager of certain production companies of the Atlas Copco Group in China and was responsible for overseeing the accounting departments. Ms Zhou joined the Group in July 2006. She became the director of NGC in March 2007. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, High Drive, Gaochuan Sky, Nantong Diesel, Zhong-Chuan Heavy Duty, Zhong-Chuan Heavy Duty Machine Tool, AE&E Nanjing, NGC (US) and China Transmission Holdings.

DIRECTORS' REPORT

The Directors of the Company are pleased to present the Directors' report and the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES

The Company and the Group are principally engaged in production and sale of gear transmission equipment products.

Details of the principal activities of the subsidiaries, associates and jointly controlled entities of the Company are set out in notes 46, 20 and 21 to the consolidated financial statements respectively.

OPERATING RESULTS AND APPROPRIATIONS

The operating results of the Group for the year ended 31 December 2012 are set out in the consolidated statement of comprehensive income on pages 46 and 47 in the consolidated financial statements.

The Directors do not recommend payment of a dividend for the year ended 31 December 2012 and propose that the profit for the year be retained.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2012 was approximately RMB4,230,739,000 (2011: RMB3,482,684,000).

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2012 are set out in note 16 to the consolidated financial statement.

SHARE CAPITAL

Details of the registered and issued share capital of the Company are set out in note 36 to the consolidated financial statements.

DONATION EXPENDITURE

During the Period under Review, the donation expenditure of the Group was approximately RMB5,536,000 (2011: RMB376,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities for the year ended 31 December 2012.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 June 2007 pursuant to the written resolutions of all shareholders of the Company. The share option scheme is a share incentive scheme and is established to recognize and acknowledge the contributions of the eligible participants who have had or may have made to the Group. The share option scheme will provide the eligible participants an opportunity to have a personal stake in the Company with the view to (i) motivating the eligible participants to optimize their performance and efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

Options granted must be taken up within 12 months from the date of grant, upon payment of HK$1 per option. Options may be exercised at any time prior to the expiry from 10 years from the date of acceptance. The exercise price is determined by the Directors of the Company, and must be at least the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. Share options do not confer rights to the holders to receive dividends or vote at shareholder's meetings. Summary of the Company's share options is set out in note 37 to the notes to the consolidated financial statements.

SHARE OPTION SCHEME *(Continued)*

The following table sets out the movements in the Company's share options during the Period under Review:

Grantee (s)	Date of grant	Exercisable period (Note 1)	Vesting period	Exercise per share HK$ (Note 2 & 3)	Number of share options: Outstanding as at 1 January 2012	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2012 (Note 5 & 6)
Qualified employees	6 November 2008	6 November 2008 to 5 November 2013	Nil	5.60	11,714,800	–	–	–	–	11,714,800
Total					11,714,800	–	–	–	–	11,714,800

Notes:

1. The exercisable period of the share options granted to employees is five years commencing from the date of acceptance.

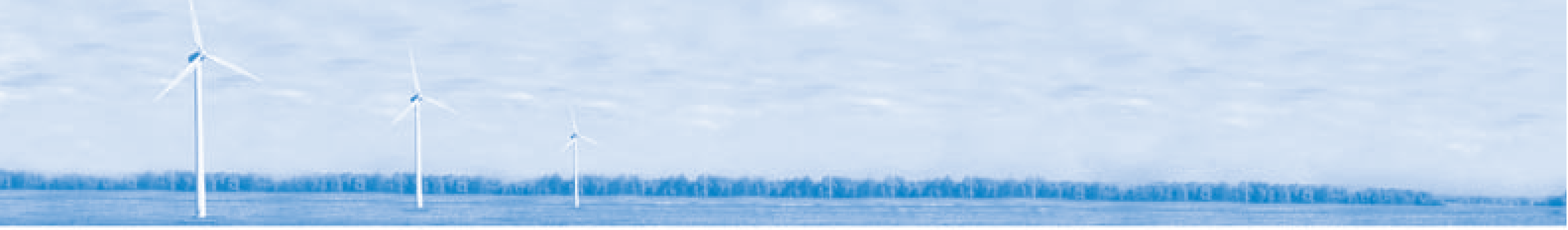
2. The closing price of the Company's shares on the date of grant was HK$5.60.

3. The average closing price of the Company's shares for the five business days immediately preceding the date of grant was HK$5.536.

4. The Share options were vested immediately at the date of grant.

5. The fair value of the share options determined at the date of grant using the Binominal model is approximately RMB30,030,000.

6. None of the directors, chief executives or substantial shareholders of listed companies or their respective associates holds any share options. All grantees are employees with long-term service contracts.



MAJOR SUPPLIERS AND CUSTOMERS

The purchase amount of the Group's five major suppliers and the largest supplier were approximately RMB893,485,000 and RMB240,011,000, representing 27.5% and 7.4% of the total purchase amounts respectively. Besides, the revenue amount of the Group's five major customers and the largest customer were approximately RMB3,241,643,000 and RMB1,274,283,000, representing 50.9% and 20.0% of the total revenue amounts respectively. All transactions between the Group and relevant suppliers and customers were carried out on normal commercial terms.

To the best knowledge or the Directors, none of Directors and any shareholders holding over 5% of the Company's shares and their associates (within the meanings of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") had any interests in the above five major suppliers and customers during the year.

DIRECTORS' SERVICE CONTRACTS

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

Under the Cayman Companies Law, at every annual general meeting of the Company, no less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and eligible to the offer themselves for re-election.

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

DIRECTORS AND THEIR TERMS

Directors in office and their terms for the year and up to the date of this report were:

Executive Directors:

Mr. Hu Yueming	Three years from the date of his re-election on 18 June 2010
Mr. Chen Yongdao	Three years from the date of his re-election on 12 June 2012
Mr. Lu Xun	Three years from the date of his re-election on 12 June 2012
Mr. Li Shengqiang	Three years from the date of his re-election on 12 June 2012
Mr. Liu Jianguo	Three years from the date of his re-election on 12 June 2012
Mr. Liao Enrong	Three years from the date of his re-election on 13 June 2011
Mr. Jin Maoji	Three years from the date of his re-election on 18 June 2010

Independent Non-executive Directors:

Mr. Jiang Xihe	Three years from the date of his re-election on 13 June 2011
Mr. Zhu Junsheng	Three years from the date of his re-election on 13 June 2011
Mr. Chen Shimin	Three years from the date of his re-election on 13 June 2011
Ms. Jiang Jianhua	Three years from the date of her appointment on 31 December 2012

DIRECTORS' INTERESTS IN CONTRACTS

Save as the directors' service contracts disclosed above and the connected transactions mentioned below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the year.

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

As at 31 December 2012, 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 its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would be required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code continued in the Listing Rules.

During the reporting period, none of the Directors and chief executives of the Company or any of their associates had any interests in any securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors and chief executives 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.

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES *(Continued)*

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

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

As at 31 December 2012, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name	Nature of interests	Number of securities held	Approximate percentages to the equity (%)
Fortune Apex Limited (Note 1)	Beneficial owner	336,117,024 (Long Position)	24.66 (Long Position)
The Capital Group Companies, Inc. (Note 2)	Held by controlled corporation	123,038,730 (Long Position)	9.03 (Long Position)

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES *(Continued)*

Notes:

(1) As at 31 December 2012, Fortune Apex Limited owned 24.66% interest in the issued share capital of the Company, of which 53,800,000 shares (approximately 3.94%) were interest in derivatives. Messrs Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang*, Li Shengqiang, Liao Enrong, Jin Maoji, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguo (collectively, the "Management Shareholders") together own 100% interest in the issued share capital of Fortune Apex Limited. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex Limited:

	Name	Shareholdings
1.	Mr. Hu Yueming (executive Director)	30.3813%
2.	Mr. Liu Jianguo (executive Director)	12.3989%
3.	Mr. Lu Xun (executive Director)	10.4520%
4.	Mr. ChenYongdao (executive Director)	10.5343%
5.	Mr. Li Cunzhang*	8.8945%
6.	Mr. Li Shengqiang (executive Director)	8.9725%
7.	Mr. Liao Enrong (executive Director)	5.3422%
8.	Mr. Jin Maoji (executive Director)	5.9195%
9.	Mr. Yao Jingsheng	2.5678%
10.	Mr. Chen Zhenxing	0.9091%
11.	Mr. Zhang Xueyong	1.1286%
12.	Mr. Xu Yong	0.7376%
13.	Mr. Wang Zhengrong	0.6792%
14.	Mr. Cheng Liguo	1.0825%
	Total	100.0000%

* Mr. Li Cunzhang passed away on 10 August 2007.

However, none of them singly controls more than one-third of the voting power at general meetings of Fortune Apex Limited and neither Fortune Apex Limited nor its directors are accustomed or obliged to act in accordance with directions or instruction of any single member of the Management Shareholders.

(2) The Capital Group Companies Inc. held 9.03% interest of the Company through several controlled corporations, including Capital Group International, Inc., Capital Guardian Trust Company, Capital International, Inc., Capital International Limited and Capital International Sarl.

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2012, there was no other person, other than the directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

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

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2012 are set out in note 44 to the consolidated financial statements. The Directors of the Company (including our independent executive Directors) believe that the related party transactions set out in the note 44 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

No transaction listed in note 44 to the consolidated financial statements constitutes a discloseable connected transaction under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

As at 31 December 2012, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

PRE-EMPTION RIGHT

Though there are no restrictions on the grant of pre-emption right under the Cayman Laws, the Company did not grant any pre-emption rights in accordance with the Articles of Association.

PUBLIC FLOAT

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

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as our auditor for 2013.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 31 to the consolidated financial statements.

TAXATION

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

MATERIAL LITIGATIONS AND ARBITRATIONS

During the reporting period, the Group had no material litigations and arbitrations.

By order of the Board
Hu Yueming
Chairman

Hong Kong, 28 March 2013

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board recognizes the importance of corporate governance practice to the success of a listed company. The Company is committed to achieving high standards of corporate governance in the interest of the shareholders of the Company. This report describes the corporate governance practices of the Group, explains the applications and deviation (if any) of the principles of the Corporate Governance Code.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (effective until 31 March 2012) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices (effective from 1 April 2012) (the "New Code") contained in Appendix 14 to Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2012 except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and deviation from code provision A.6.7 which states that non-executive directors should attend general meetings of shareholders.

Mr. Hu Yueming is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person is beneficial to the business development and management of the Group. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this arrangement will enable the Company to make and implement decisions promptly and efficiently.

The Company's Chairman and Chief Executive Officer, most of the non-executive Directors, Chairman of the Audit Committee, Chairman of the Remuneration Committee, Chairman of the Nomination Committee and external Auditors have attended the 2011 Annual General Meeting, except Mr. Zhu Junsheng, a non-executive Director, who was absent from the 2011 Annual General Meeting due to illness.

CORPORATE STRATEGY AND BUSINESS MODEL

The Group has been focusing on the proprietary research and development, design, manufacture and sales of gear transmission products with high technology. Our products are widely applied in various industrial areas, customers of the Company are distributed in a number of equipment manufacturing industries around the world. In future development, the Group will develop comprehensive equipment products on the basis of the original gear transmission equipment products, increase added value to products and seek diversified developments in the Group's products to increase our comprehensive corporate competitiveness.

COMPOSITION AND PRACTICES OF THE BOARD

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

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

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

The Board of the Company comprises eleven Directors, including seven executive Directors and four independent non-executive Directors. The Board held four meetings and passed six written resolutions during the year. The attendance of the Directors and members of all Committees at the meetings were as follows:

	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	2011 Annual General Meeting
No. of meetings held	4	2	2	1	1
Executive Directors					
Mr. Hu Yueming *(Chairman and Chief Executive Officer)*	4/4			1/1	1/1
Mr. Chen Yongdao	3/4				0/1
Mr. Lu Xun	4/4				0/1
Mr. Li Shengqiang	4/4				0/1
Mr. Liu Jianguo	3/4		2/2		0/1
Mr. Liao Enrong	4/4				0/1
Mr. Jin Maoji	4/4				1/1
Independent non-executive Directors					
Mr. Jiang Xihe	4/4	2/2	2/2	1/1	1/1
Mr. Zhu Junsheng	1/4	1/2		1/1	0/1
Mr. Chen Shimin	4/4	2/2	2/2		1/1
Ms. Jiang Jianhua (appointed on 31 December 2012)	0/0				0/0

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

During the year, there was no change in the composition of the Board, except that Ms. Jiang Jianhua was appointed as an independent non-executive Director on 31 December 2012.

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

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

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent. The Company has also complied with the requirements in respect of independent non-executive directors under the Rule 3.10 and Rule 3.10A of the Listing Rules.

The Company has put in place appropriate insurance cover in respect of Directors' liability.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Hu Yueming is the Chairman and Chief Executive Officer of the Company. He is responsible for formulating the overall strategies and policies of the Company for the smooth operation and performance of duties of the Board. The Board believes that appointing the same person as the Chairman and the Chief Executive Officer is favourable to the development and management of the business of the Group while the existing balance between functions and power is not affected. Besides, it enables the Company to formulate and implement decisions in a rapid and efficient manner.

NON-EXECUTIVE DIRECTORS

The service term of non-executive director is:

Mr. Jiang Xihe	Three years from the date of his re-election on 13 June 2011
Mr. Zhu Junsheng	Three years from the date of his re-election on 13 June 2011
Mr. Chen Shimin	Three years from the date of his re-election on 13 June 2011
Ms. Jiang Jianhua	Three years from the date of her appointment on 31 December 2012

REMUNERATION COMMITTEE

The Company established the remuneration committee on 8 June 2007. The remuneration committee comprises three members, namely Mr. Chen Shimin, Mr. Jiang Xihe and Mr. Liu Jianguo, two of which are independent non-executive Directors. Mr. Chen Shimin, an independent non-executive Directors, is the chairman of the remuneration committee.

The primary duties of the remuneration committee are to make recommendations to the Board on the Company's remuneration policy and structure, the remuneration packages of individual executive Director and senior management and the remuneration packages of non-executive Directors.

REMUNERATION COMMITTEE *(Continued)*

During the year, the remuneration committee held two meetings, which made proposals on the remuneration of directors and senior management and the newly-appointed non-executive director Ms. Jiang Jianhua. The attendance record of each member of every committee was set out in the section entitled "Composition and Practices of the Board" on page 37.

Details of remuneration of the Directors, five highest paid individuals of the Group and the disclosure of the Group's senior management by remuneration level are set out in Note 13 to the financial statements.

NOMINATION COMMITTEE

The Company has established the Nomination Committee with effect from 1 April 2012. The nomination committee comprises three members, namely Mr. Hu Yueming, Mr. Zhu Junsheng and Mr. Jiang Xihe, majority of whom are independent non-executive Directors. Mr. Hu Yueming, Chairman of the Board of the Company, is the chairman of the nomination committee.

The primary duties of the nomination committee are to study the proposed candidates, the selection criteria and procedure of the Company's directors and senior management and give recommendations, and review the structure, number and composition of the Board at least once annually to implement the Company's corporate strategies.

During the year, the nomination committee held one meeting to review the structure, number and composition in respect of the Company's corporate strategies, and proposed the Board in respect of the candidates for newly appointed non-executive directors during the year. The attendance of member of each committees set out in the section entitled "Composition and Practices of the Board" on page 37.

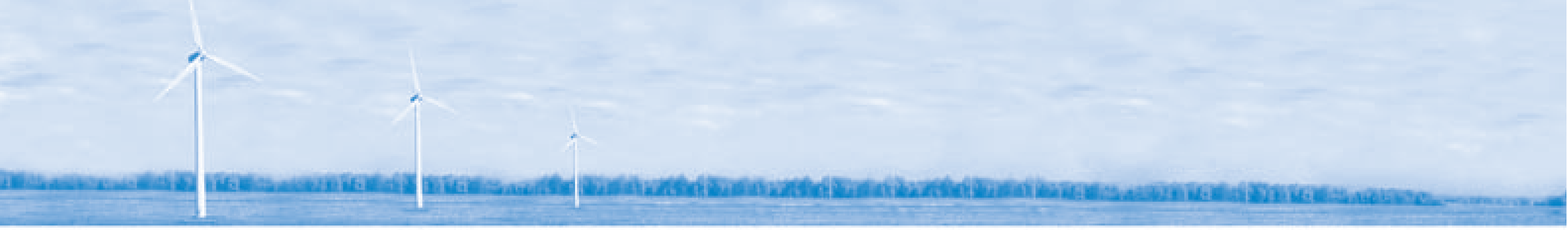
AUDIT COMMITEE

The Company established the audit committee on 8 June 2007 with written terms of reference which have been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Company as well as nominating and supervising the external auditor and offering advice and recommendations to the Board of the Company.

The audit committee comprises three members, namely Mr. Jiang Xihe, Mr. Zhu Junsheng and Mr. Chen Shimin, all of which are independent non-executive Directors. Mr. Jiang Xihe is the chairman of the audit committee.

During the year, the audit committee held two meetings to (i) review the 2012 reports from the management and internal audit department, and review the annual report for the year 2011 and the interim report for the year 2012 of the Group and report the review conclusions to the Board; (ii) review the independence of external auditors; and (iii) consider and approve the external auditor's fees and the letter of appointment for the year 2012. The attendance record of each member of every committee was set out in the section entitled "Composition and Practices of the Board" on page 37.

The annual report for the year ended 31 December 2012 of the Group had been reviewed by the audit committee.



CORPORATE GOVERNANCE FUNCTION

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

(i) to develop and review the Group's corporate governance policy and practices and propose in this regard;

(ii) to review and monitor the training and ongoing professional development of the Directors and senior management;

(iii) to review and monitor the compliance of the Group's policy and practice with all laws and regulations, if applicable;

(iv) to develop, review and monitor the code of conduct and compliance guidance (if any) applicable for all employees and Directors of the Group; and

(v) to review the compliance of the Group with the disclosure requirements on corporate governance code and corporate governance report.

During the year, the Board established the nomination committee, revised the terms of reference for the remuneration committee and the audit committee based on the new code and established the shareholder communication policy and the procedure for the nomination of persons by the Company's shareholders to be elected as directors.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of 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 standard set out in the Model Code during the year ended 31 December 2012.

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, Company Secretary, is responsible for facilitating the procedures of the Board and the communication among directors and between directors and shareholders and the management. The biography of the company secretary is set out in the section entitled "Directors and Senior Management". During the year 2012, the company secretary received in aggregate more than 15 hours professional trainings to update his skills and knowledge.

INDUCTION TRAINING AND DEVELOPMENT

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

During the year, the Directors received the update information on the Group's business and operation, the directors' responsibilities under the regulations and common law, the Listing Rules, the law and other regulatory requirements. During the year, the Company arranged one training session and/or provided training materials for Directors and the contents mainly include introduction of directors' responsibilities and the Code of Corporate Governance under the Listing Rules. And with effect from April 2012, all Directors shall report his training record to the Company annually.

During the year, the individual training record of each Director was set out as follows:

	Readings on updates and materials on business, operation and/or corporate governance affairs	Lectures/seminars on business/ director's responsibilities attended or participated
Executive Directors		
Mr. Hu Yueming		
(Chairman and Chief Executive Officer)	✓	✓
Mr. Chen Yongdao	✓	✓
Mr. Lu Xun	✓	✓
Mr. Li Shengqiang	✓	✓
Mr. Liu Jianguo	✓	✓
Mr. Liao Enrong	✓	✓
Mr. Jin Maoji	✓	✓
Independent non-executive Directors		
Mr. Jiang Xihe	✓	✓
Mr. Zhu Junsheng	✓	✓
Mr. Chen Shimin	✓	✓
Ms. Jiang Jianhua		
*(appointed on 31 December 2012_*	✓	—

REMUNERATION OF AUDITOR

For the year ended 31 December 2012, the fees payable by the Group to Deloitte Touche Tohmatsu for their statutory audit services amounted to RMB3,230,000 (2011: RMB3,092,000). The non-audit service fees included the fees for the following services:

	Year ended 31 December	
	2012	2011
	RMB'000	RMB'000
Tax services	**240**	568
Review of interim results	**982**	873
Other non-audit services	**—**	640
	1,222	2,081

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTS

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

Reporting responsibility statement with respect to the financial reports of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 44 to 45.

INTERNAL CONTROL

The Board takes full responsibility to maintain a sound and efficient internal control system for the Group to protect the shareholders' investment and the Group's assets, which is in the interest of the shareholders.

The audit committee has reviewed the reports for 2012 made by the management and the internal audit department, and submitted its views on auditing conclusions.

The Board has reviewed the internal control system of the Group based on the reports from the management and internal audit department. The review covered all critical aspects of the control, including financial control, operational control, compliance control and risk management functions. The Board has also reviewed the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The Board believed that existing internal control system was sufficient and efficient during the year under review and up to the publishing date of this annual report and accounts.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum of Association and Bye-laws during the year. A copy of the latest consolidated version of the Memorandum of Association and Bye-laws is posted on the websites of the Company and the Stock Exchange.

SHAREHOLDERS' RIGHTS

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

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

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

Shareholders of the Company may at any time send their enquiries and questions to the Board in writing through the Company Secretary or make enquiries with the Board at the general meetings of the Company. Contact details of the Company Secretary are as follows:

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

Deloitte.
德勤

TO THE MEMBERS OF
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
中國高速傳動設備集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 46 to 143, which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

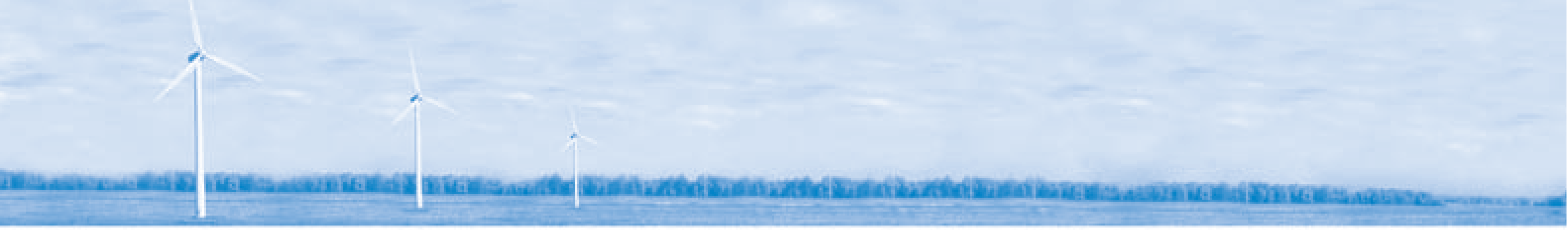
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair value in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2013



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Revenue	7	**6,368,817**	7,120,712
Cost of sales		**(4,815,463)**	(5,301,916)
Gross profit		**1,553,354**	1,818,796
Other income	8	**215,192**	231,613
Other gains and losses	9	**(2,354)**	(70,078)
Distribution and selling costs		**(278,779)**	(254,278)
Administrative expenses		**(502,090)**	(527,057)
Research and development costs		**(137,804)**	(83,084)
Other expenses		**(88,518)**	(123,231)
Finance costs	10	**(523,878)**	(323,399)
Share of results of associates		**(11,742)**	1,172
Share of results of jointly controlled entities		**(15,712)**	24,622
Profit before taxation		**207,669**	695,076
Taxation	11	**(79,197)**	(147,488)
Profit for the year	12	**128,472**	547,588
Other comprehensive expense for the year			
Exchange difference arising on translation		**(261)**	(291)
Fair value loss on:			
available-for-sale financial assets		**(59,587)**	—
hedging instruments designated in cash flow hedges		**(6,496)**	—
Other comprehensive expense for the year		**(66,344)**	(291)
Total comprehensive income for the year		**62,128**	547,297

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
Profit (loss) for the year attributable to:			
Owners of the Company		**138,426**	556,974
Non-controlling interests		**(9,954)**	(9,386)
		128,472	547,588
Total comprehensive income (expense) attributable to:			
Owners of the Company		**72,082**	556,683
Non-controlling interests		**(9,954)**	(9,386)
		62,128	547,297
Earnings per share	15		
Basic (RMB)		**0.102**	0.407
Diluted (RMB)		**0.102**	0.406

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**6,238,143**	5,588,890
Prepaid lease payments	17	**938,448**	609,362
Goodwill	18	**17,715**	17,715
Intangible assets	19	**277,806**	271,303
Interests in associates	20	**183,324**	186,066
Interests in jointly controlled entities	21	**612,572**	652,284
Available-for-sale investments	22	**306,658**	362,945
Deposit for land lease	23	**336,042**	400,000
Prepayment for acquisition of property, plant and equipment		**89,828**	31,373
Deferred tax assets	24	**68,525**	27,933
		9,069,061	8,147,871
CURRENT ASSETS			
Inventories	25	**1,780,504**	1,799,018
Prepaid lease payments	17	**20,330**	13,321
Trade and other receivables	26	**4,667,937**	4,937,637
Amounts due from associates	27	**5,507**	30,431
Amounts due from jointly controlled entities	28	**35,806**	26,744
Tax asset		**875**	18,448
Pledged bank deposits	29	**1,897,712**	1,252,922
Bank balances and cash	29	**2,404,502**	2,174,592
		10,813,173	10,253,113

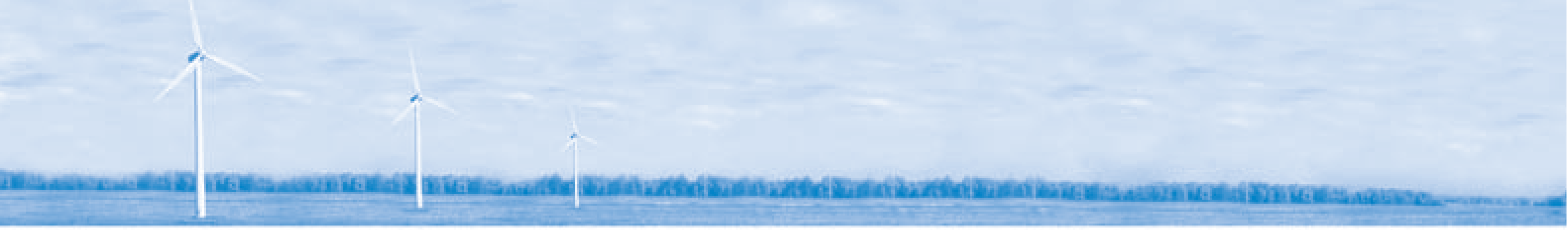
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2012

	NOTES	2012 RMB'000	2011 RMB'000
CURRENT LIABILITIES			
Trade and other payables	30	**2,945,279**	2,825,862
Amounts due to associates	27	**76,476**	397
Amount due to a jointly controlled entity	28	—	11,686
Tax liabilities		**81,683**	87,361
Borrowings – due within one year	31	**7,449,119**	4,991,382
Warranty provision	32	**92,239**	81,261
		10,644,796	7,997,949
NET CURRENT ASSETS		**168,377**	2,255,164
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,237,438**	10,403,035
NON-CURRENT LIABILITIES			
Borrowings – due after one year	31	**1,288,238**	2,627,075
Deferred tax liabilities	24	**18,242**	63,066
Deferred income	33	**179,899**	90,859
Derivative financial instruments	34	**6,496**	—
		1,492,875	2,781,000
		7,744,563	7,622,035
CAPITAL AND RESERVES			
Share capital	36	**102,543**	102,543
Reserves		**7,436,895**	7,370,038
Equity attributable to owners of the Company		**7,539,438**	7,472,581
Non-controlling interests		**205,125**	149,454
		7,744,563	7,622,035

The consolidated financial statements on pages 46 to 143 were approved and authorised for issue by the Board of Directors on 28 March 2013 and are signed on its behalf by:

DIRECTOR *DIRECTOR*



CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2012

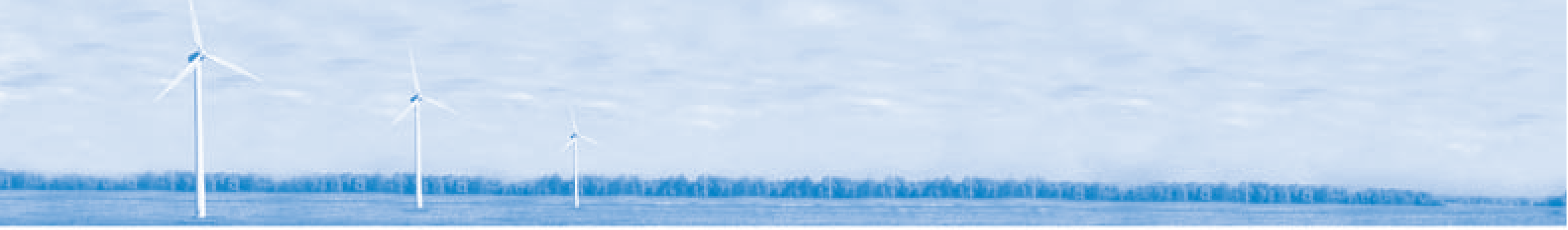
	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000 (note a)	Capital reserve RMB'000 (note b)	Investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (note c)	Other reserve RMB'000 (note d)	Exchange reserve RMB'000	Share option reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2011	103,345	4,281,091	77,651	154,091	–	298,893	52,335	(358)	30,030	–	2,395,652	7,392,730	121,611	7,514,341
Profit (loss) for the year	–	–	–	–	–	–	–	–	–	–	556,974	556,974	(9,386)	547,588
Other comprehensive expense for the year	–	–	–	–	–	–	–	(291)	–	–	–	(291)	–	(291)
Total comprehensive (expense) income for the year	–	–	–	–	–	–	–	(291)	–	–	556,974	556,683	(9,386)	547,297
Dividends recognised as distribution (note 14)	–	–	–	–	–	–	–	–	–	–	(374,918)	(374,918)	–	(374,918)
Dividend paid to a non-controlling shareholder of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(6,189)	(6,189)
Exercise of share options	19	2,029	–	–	–	–	–	–	(714)	–	–	1,334	–	1,334
On maturity of the November 2009 Equity Swap (as defined in note 34)	(821)	(112,189)	–	–	–	–	–	–	–	–	–	(113,010)	–	(113,010)
Appropriation	–	–	–	–	–	53,849	–	–	–	–	(53,849)	–	–	–
Capital contributions by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	54,921	54,921
Acquisition of additional interest in a subsidiary	–	–	–	9,762	–	–	–	–	–	–	–	9,762	(39,078)	(29,316)
On acquisition of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	27,575	27,575
At 31 December 2011	102,543	4,170,931	77,651	163,853	–	352,742	52,335	(649)	29,316	–	2,523,859	7,472,581	149,454	7,622,035
Profit for the year	–	–	–	–	–	–	–	–	–	–	138,426	138,426	(9,954)	128,472
Other comprehensive expense for the year	–	–	–	–	(59,587)	–	–	(261)	–	(6,496)	–	(66,344)	–	(66,344)
Total comprehensive (expense) income for the year	–	–	–	–	(59,587)	–	–	(261)	–	(6,496)	138,426	72,082	(9,954)	62,128
Appropriation	–	–	–	–	–	13,383	–	–	–	–	(13,383)	–	–	–
Capital contributions by non-controlling shareholders of subsidiaries	–	–	–	–	–	–	–	–	–	–	–	–	82,600	82,600
Acquisition of additional interest in subsidiaries	–	–	–	(5,225)	–	–	–	–	–	–	–	(5,225)	(16,975)	(22,200)
At 31 December 2012	102,543	4,170,931	77,651	158,628	(59,587)	366,125	52,335	(910)	29,316	(6,496)	2,648,902	7,539,438	205,125	7,744,563

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

Note b: The balance of capital reserve at 1 January 2011 represents the difference between the total consideration and the net assets of certain subsidiaries acquired or disposed by the Group with a shareholder of Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate"). The changes in 2012 and 2011 represent the difference between the consideration and the net assets of non-controlling interest of subsidiaries upon acquisition of additional interest in subsidiaries.

Note c: Pursuant to relevant laws and regulations in the People's Republic of China ("PRC") and the Articles of Association of the PRC subsidiaries of the Company, the PRC subsidiaries are required to make appropriation from profit after taxation to the statutory surplus reserve at a rate of 10%. The statutory surplus reserve may be used to make up losses incurred and, with the approval from relevant government authorities, to increase capital.

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



CONSOLIDATED STATEMENT OF CASH FLOWS

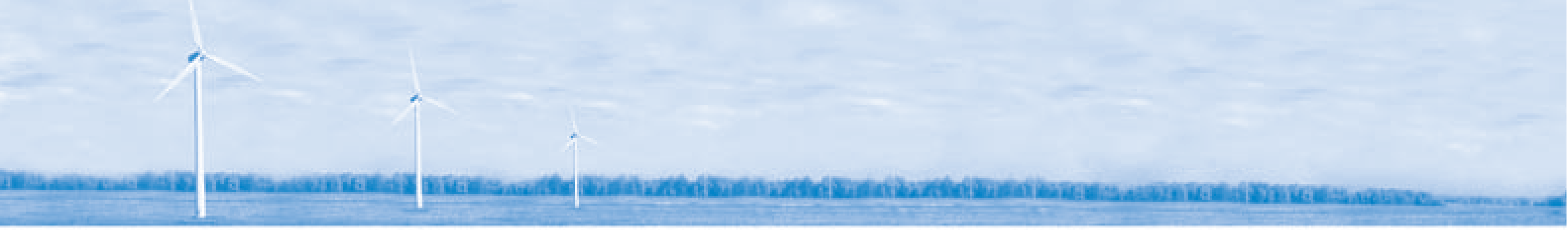
For the year ended 31 December 2012

	NOTE	2012 RMB'000	2011 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**207,669**	695,076
Adjustments for:			
Allowance for inventories		**29,386**	38,220
Amortisation of intangible assets		**69,040**	75,542
Bank interest income		**(61,908)**	(45,469)
Cancellation fee received		**(23,754)**	—
Depreciation of property, plant and equipment		**504,596**	479,217
Finance costs		**523,878**	323,399
Loss on fair value change on convertible bonds		**—**	34,246
Loss on disposal of property, plant and equipment		**1,017**	(1,588)
Impairment loss on intangible assets		**2,741**	9,948
Impairment loss on trade and other receivables		**85,777**	113,283
Loss on fair value change on derivative financial instrument		**—**	53,988
Gain on disposal of available-for-sale investments		**—**	(367)
Release of prepaid lease payments		**14,261**	10,630
Share of results of associates		**11,742**	(1,172)
Share of results of jointly controlled entities		**15,712**	(24,622)
Release of deferred income		**(4,253)**	(4,003)
Operating cash flows before movements in working capital		**1,375,904**	1,756,328
Increase in inventories		**(10,872)**	(561,409)
Decrease (increase) in trade and other receivables		**183,923**	(1,174,935)
Net changes in amounts due from/to associates		**47,840**	(14,758)
Net changes in amounts due from/to jointly controlled entities		**(20,748)**	(12,384)
Increase in trade and other payables		**107,491**	152,691
Increase in warranty provision		**10,978**	22,868
Cash generated from operations		**1,694,516**	168,401
Income tax paid		**(152,718)**	(286,585)
NET CASH FROM (USED IN) OPERATING ACTIVITIES		**1,541,798**	(118,184)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	NOTE	2012 RMB'000	2011 RMB'000
INVESTING ACTIVITIES			
Placement in pledged bank deposits		(4,238,058)	(2,489,202)
Purchase of property, plant and equipment		(1,037,487)	(1,002,124)
Deposit paid for land lease		(288,442)	(39,200)
Prepaid lease payments paid		(237,956)	(122,235)
Prepayment for acquisition of property, plant and equipment		(89,828)	(31,373)
Expenditure on intangible assets		(78,284)	(136,943)
Acquisition of interest in an associate		(9,000)	(128,150)
Purchase of available-for-sale investments		(3,300)	(254,879)
Withdrawal in pledged bank deposits		3,593,268	2,003,119
Refund on deposit for land lease		240,000	—
Government grants related to non-current assets		97,045	34,891
Interest received		61,908	45,469
Dividend received from a jointly controlled entity		24,000	25,000
Cancellation fee received		23,754	—
Proceeds on disposal of property, plant and equipment		18,916	5,208
Acquisitions of subsidiaries	38	—	(79,301)
Acquisition of interest in a jointly controlled entity		—	(28,500)
Amount advanced to an associate		—	(16,588)
Proceeds on disposal of available-for-sale investments		—	40,947
NET CASH USED IN INVESTING ACTIVITIES		(1,923,464)	(2,173,861)



CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2012

	2012 RMB'000	2011 RMB'000
FINANCING ACTIVITIES		
New borrowings raised	**8,185,330**	7,047,198
Capital contribution by non-controlling shareholders	**82,600**	54,921
Repayment of borrowings	**(7,066,430)**	(2,705,442)
Interest paid	**(567,724)**	(389,105)
Acquisition of additional interests in subsidiaries	**(22,200)**	(29,316)
Proceeds from exercise of share options	**—**	1,334
Redemption of convertible bonds at maturity	**—**	(1,254,179)
Dividend paid to owners of the Company	**—**	(374,918)
Dividend paid to a non-controlling shareholder of a subsidiary	**—**	(6,189)
Repayment to a related party	**—**	(1,435)
NET CASH FROM FINANCING ACTIVITIES	**611,576**	2,342,869
NET INCREASE IN CASH AND CASH EQUIVALENTS	**229,910**	50,824
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**2,174,592**	2,123,768
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	**2,404,502**	2,174,592

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4 July 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the section Corporate Information in the annual report.

The Company acts as investment holding. Particulars of the principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 46, 20 and 21 respectively.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group. As at 31 December 2012, the Group's borrowings comprising bank loans and short term commercial papers amounted to approximately RMB8,737 million. At 31 December 2012, in relation to a syndicated loan of RMB716 million (the "Syndicated Loan"), the Company breached certain of the financial covenants of the Syndicate Loan agreement. On discovery of the breach, the Company informed the Syndicate Loan lenders and commenced negotiations for a waiver (the "Waiver"). Up to the date of the issue of the consolidated financial statements, the negotiations are still in progress. The directors of the Company are confident that negotiations with the Syndicate Loan lenders will ultimately reach a successful conclusion. In any event, should the Syndicate Loan lenders call for immediate repayment of the loans, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group. In addition, subsequent to the end of the reporting period, the Group has renewed RMB2,074 million of existing bank facilities, and is in the process of arranging other sources of finance totalling approximately RMB5,100 million. In February 2013, the Group issued commercial paper of RMB700 million.

Taking into account of the financial resources available to the Group, the directors of the Company are of the view that the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period and accordingly, the consolidated financial statements have been prepared on a going concern basis.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)")

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB").

Amendments to IAS 12	Deferred Tax: Recovery of Underlying Asset; and
Amendments to IFRS 7	Financial Instruments: Disclosures – Transfers of Financial Assets

Except as described below, the application of the amendments to IFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to IFRS 7 Disclosures – Transfers of Financial Assets

The Group has applied for the first time the amendments to IFRS 7 *Disclosures – Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has discounted bills receivable to banks with full recourse, and transferred bills receivable to its suppliers to settle its payables through endorsing the bills to its suppliers with full recourse. Specifically, if the bills receivable are not paid by the issuing banks at maturity, the collecting banks and/or the suppliers would have the right to request the Group to pay the unsettled balances. Therefore, in considering the appropriate accounting treatment, the directors of the Company have taken into consideration, among others, the credit quality of the issuing banks of the bills and the risk and likelihood of non-settlement by the issuing banks on maturity, as well as the relevant PRC practice, rules and regulations should the issuing bank fail to settle the bills on maturity date.

When the Group has transferred the significant risks and rewards relating to those bills receivable, and that the Group has discharged its obligations to suppliers upon settlement by endorsing bills, the Group derecognised these bills receivable and the payables to suppliers in their entirety.

When the Group has not transferred the significant risks and rewards relating to those bills receivable, and that the Group has not discharged its obligations to suppliers upon settlement by endorsing bills, it continues to recognise the full carrying amount of the bills receivable and recognise the cash received on the transfer as a secured borrowing and continue to recognise the payables to suppliers.

The relevant disclosures have been made regarding the transfer of these bills receivable on application of the amendments to IFRS 7 (see note 26).

In accordance with the transitional provisions set out in the amendments to IFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRSs that have been issued but are not yet effective:

Amendments to IFRSs	Annual Improvements to IFRSs 2009 – 2011 Cycle
Amendments to IFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IFRS 10, IFRS 11 and IFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[2]
IFRS 9	Financial Instruments[3]
IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 19 (as revised in 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to IAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[2]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

IFRS 9 Financial Instruments

IFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

IFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the application of IFRS 9 may affect the classification and measurement of the Group's financial assets and financial liabilities should such designation be made in the future. The Group is still in the process of assessing the impact and such impact will be disclosed in the future consolidated financial statements upon the completion of a detailed review.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

New and revised standards on consolidation, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* will be withdrawn upon the effective date of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is, control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC-13 *Jointly Controlled Entities – Non-monetary Contributions by Venturers* will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these five IFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that the application of these five standards may have impact on amounts reported in the consolidated financial statements. The Group is still in the process of assessing the impact and will be disclosed in the future consolidated financial statements upon the completion of a detailed review.

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

IFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted. The directors anticipate that the application of the new standard may affect certain amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to IAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income' and an 'income statement' is renamed as a 'statement of profit or loss'. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to IAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

Other than disclosed above, the directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, it (i) derecognises the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost, (ii) derecognises the carrying amount of any non-controlling interests in the former subsidiary at the date when control is lost (including any components of other comprehensive income attributable to them), and (iii) recognises the aggregate of the fair value of the consideration received and the fair value of any retained interest, with any resulting difference being recognise as a gain or loss in profit or loss attributable to the Group. When assets of the subsidiary are carried at revalued amounts or fair values and the related cumulative gain or loss has been recognised in other comprehensive income and accumulated in equity, the amounts previously recognised in other comprehensive income and accumulated in equity are accounted for as if the Group had directly disposed of the related assets (i.e. reclassified to profit or loss or transferred directly to retained earnings as specified by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39 *Financial Instruments: Recognition and Measurement* or, when applicable, the cost on initial recognition of an investment in an associate or a jointly controlled entity.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or sharebased payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill or gain on bargain purchase. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investments in associates are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associates. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates *(Continued)*

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon disposal of an associate that results in the Group losing significant influence over that associate, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset in accordance with IAS 39. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when it loses significant influence over that associate.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the jointly controlled entities. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

The financial statements of jointly controlled entities used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of a jointly controlled entity recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in a jointly controlled entity. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group's consolidated financial statements only to the extent of interests in the jointly controlled entity that are not related to the Group.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RMB using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

Retirement benefit costs

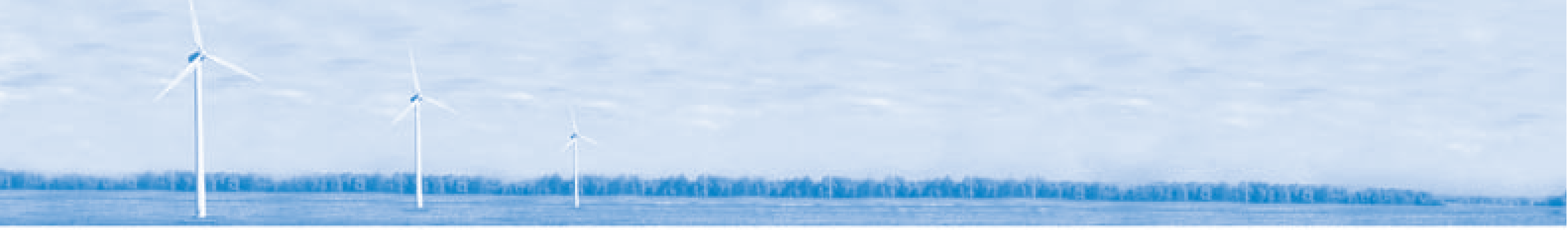
Payments to state-managed retirement benefit schemes and the Hong Kong's Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.



3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the consolidated statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Freehold land is stated at cost and is not amortised.

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally-generated intangible assets – research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred. Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Available-for-sale ("AFS") financial assets

AFS financial assets are non-derivatives that are either designated or not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss ("FVTPL").

Equity and debt securities held by the Group that are classified as AFS and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates/jointly controlled entities, pledged bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its costs is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on AFS equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis other than financial liabilities classified as at FVTPL, of which the interest expense is included in net gains or losses.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Financial liabilities at FVTPL

Financial liabilities at FVTPL of the Group comprise the convertible bonds as the financial liabilities designated at FVTPL on initial recognition.

A financial liability may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial liabilities at FVTPL are measured at fair value, with any gains or losses arising on remeasurement recognised in profit or loss in the period in which they arise. The net gain or loss is included in the "other gains and losses" line item in profit or loss.

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to associates, amount due to a jointly controlled entity and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Hedge accounting

The Group designates certain derivatives (primarily interest rate swap) as hedges of the cash flow of variable-rate bank borrowings (cash flow hedges).

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included in the 'other gains or losses' line item.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of bad and doubtful debts requires the use of estimates. Where the expectation of future cash receipts is different from the original estimate, such difference will impact the carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2012, the carrying amount of trade receivables (excluding bills receivable) is RMB2,862,397,000 (net of allowance for bad and doubtful debts of RMB264,802,000) (31 December 2011: carrying amount of RMB2,905,166,000, net of allowance for bad and doubtful debts of RMB181,555,000).

Allowance for inventories

Management exercises their estimates in making allowance for inventories. Management reviews the inventory listing at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in operation. As at 31 December 2012, the carrying amount of inventories is RMB1,780,504,000 (net of allowance for inventories of RMB116,807,000) (31 December 2011: carrying amount of RMB1,799,018,000, net of allowance for inventories of RMB87,421,000).

Useful lives and residual value of property, plant and equipment

The Group reviews the estimated useful lives and residual value of property, plant and equipment at the end of the reporting period. During the reporting period, management is satisfied that there is no change in the estimated useful lives of the property, plant and equipment from prior year. The carrying amounts of property, plant and equipment at the end of the reporting period are disclosed in note 16.

Recognition and useful lives of intangible assets

Development costs are capitalised in accordance with the accounting policy for research and development expenditures in note 3. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. The Group reviews the estimated useful lives of intangible assets at the end of each reporting period. During the reporting period, management is satisfied that there is no change in the estimated useful lives of the intangible assets from prior years. The carrying amounts of intangible assets at the end of the reporting period are disclosed in note 19.

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 31, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure regularly and taking into account of the cost and risk associated with the capital. The Group will balance its capital structure through the payment of dividends, new shares issue as well as the issue of new debt or the redemption of the existing debts.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2012 RMB'000	2011 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	8,434,013	8,080,383
Available-for-sale investments	306,658	362,945
Financial liabilities		
Amortised cost	11,259,796	9,848,344
Derivative financial instruments	6,496	—

6b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amounts due from (to) associates/jointly controlled entities, trade and other payables, pledged bank deposits, bank balances and cash, borrowings, and derivative financial instruments. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk, equity price risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

The Group is exposed to currency risks which mainly arise from the foreign currency sales and purchases, bank balances and borrowings denominated in foreign currency. Approximately 23% (2011: 16%) of the Group's sales and 7% (2011: 5%) of the Group's purchases are denominated in currencies other than the functional currency of the respective group entities.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities including available-for-sale investments, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, borrowings and derivative financial instruments at the end of the reporting period are as follows:

Assets

	2012 RMB'000	2011 RMB'000
United States Dollars (USD)	301,232	831,604
Hong Kong Dollars (HKD)	207,926	256,078
Euro (EUR)	32,316	37,502
Swiss Francs (CHF)	61	60
Singapore Dollar (SGD)	1	—
Japanese Yen (JPY)	—	4,765

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

***(i) Currency risk** (Continued)*

Liabilities

	2012 RMB'000	2011 RMB'000
United States Dollars (USD)	**976,377**	607,659
Hong Kong Dollars (HKD)	**848,874**	851,466
Euro (EUR)	**21,949**	77,196
Singapore Dollar (SGD)	**274**	—
Japanese Yen (JPY)	**—**	6,552

The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

The Group is mainly exposed to the fluctuation of HKD, USD and EUR against RMB.

The following table details the Group's sensitivity to a 5% (2011: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2011: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2011: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit and investment revaluation reserve where RMB strengthen 5% (2011: 5%) against the relevant foreign currencies. For a 5% (2011: 5%) weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit and investment revaluation reserve.

	USD		HKD		EUR	
	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000	2012 RMB'000	2011 RMB'000
Profit or loss	**33,889**	(8,131)	**41,812**	42,513	**(391)**	1,979
Investment revaluation reserve	**—**	—	**(9,765)**	(12,744)	**—**	—

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and pledged bank deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings carried interest at prevailing interest rate and bank balances carried interest at prevailing market deposit rates. Currently, the Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference to anticipated changes in market interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China, the Hong Kong Interbank Offered Rate (the "HIBOR") and the London Interbank Offered Rate (the "LIBOR") arising from the Group's RMB and foreign currencies denominated borrowings respectively. In the current year, the Group entered into interest rate swaps to hedge against its exposures to change in cash flows of the borrowing (see note 34 (2) for details).

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate borrowings (other than the interest rate swap contracts with a notional amount of HKD787,500,000 and USD12,375,000 at 31 December 2012 (2011: nil)) at the end of the reporting period and have not taken into account bank balances and cash as their impact is not expected to be significant. A 50 basis point (2011: 50 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2011: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by RMB14,292,000 (2011: decrease/increase by: RMB17,563,000).

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable-rate borrowings and the interest rate swap.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(iii) Equity price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities. The management manages this exposure by carefully monitoring the price fluctuation of the listed equity securities. The Group's equity price risk is mainly concentrated on its available-for-sale investment quoted in the Stock Exchange.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. For sensitivity analysis purpose, the sensitivity rate is set at 15% in the current year as a result of the volatile financial market.

If equity price had been 15% higher/lower (2011: 15%), the Group's comprehensive income would increase/decrease by RMB29,294,000 (2011: RMB38,232,000) as a result of the changes in fair value of available-for-sale investments.

Credit risk

As at 31 December 2012, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and discounted and endorsed bills with full recourse which were derecognised by the Group (see note 26 for details).

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit rating, the Group also has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2012, five customers engaged in the wind milling industry accounted for approximately 50% (2011: 38%) of the Group's trade receivables. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk. Other than the above, there is no other concentration of credit risk on the Group's trade receivables.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings, particularly bank loans, as a significant source of liquidity. As at 31 December 2012, the Group's bank loans amounted to approximately RMB7,937 million (2011: RMB7,618 million). The directors of the Company are of the opinion that the bank loans could be renewed as historical experience is such that the Group has no difficulty to obtain the renewal. At 31 December 2012, except for the Syndicated Loan of RMB716 million which the Group breached certain of the financial covenants of the related loan agreements and is reclassified as a current liability in the consolidated financial statements, the Group is in compliance with the respective loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms, other than discounted and endorsed bills with full recourse which were derecognised by the Group (see note 26 for details) and discussed elsewhere in these consolidated financial statements. The table has been based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, Syndicated Loan is included below in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are for floating rate instruments, the undiscounted amount is derived based on interest rate outstanding at the end of each reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate %	On demand, 0 - 30 days RMB'000	31 - 90 days RMB'000	91 - 365 days RMB'000	1 - 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2012							
Non-derivative financial liabilities							
Trade and other payables	—	1,940,744	234,907	270,312	—	2,445,963	2,445,963
Amounts due to associates	—	69,478	6,998	—	—	76,476	76,476
Borrowings	5.20	1,076,208	2,574,169	4,030,239	1,512,478	9,193,094	8,737,357
		3,086,430	2,816,074	4,300,551	1,512,478	11,715,533	11,259,796
Derivative – net settlement							
Interest rate swap		(1,591)	(3,017)	9,557	1,574	6,523	6,496
2011							
Non-derivative financial liabilities							
Trade and other payables	—	1,919,739	94,455	203,610	—	2,217,804	2,217,804
Amounts due to a jointly controlled entity	—	11,686	—	—	—	11,686	11,686
Amounts due to associates	—	397	—	—	—	397	397
Borrowings	5.50	859,367	1,300,050	3,035,545	2,959,565	8,154,527	7,618,457
		2,791,189	1,394,505	3,239,155	2,959,565	10,384,414	9,848,344
Derivative – net settlement							
Interest rate swap	—	—	—	—	—	—	—

Syndicated Loan is included in the "on demand, 0-30 days" time band in the above maturity analysis. As at 31 December 2012, the undiscounted principal amount of the Syndicated Loan amounted to RMB716,288,000 (2011: nil). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loan will be repaid by instalments over two years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB732,668,000.

6. FINANCIAL INSTRUMENTS *(Continued)*

6c. Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid and ask prices respectively;
- the fair values of derivative instruments are calculated using quoted prices. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates; and
- the fair value of other financial assets and financial liabilities (excluding derivative financial instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped as Level 1 and Level 2 based on the degree to which the fair value is observable. Level 1 fair value measurements are those derived from quoted price (unadjusted) in active markets for identical assets or liabilities. Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

	Level 1		Level 2	
	2012 **RMB'000**	2011 RMB'000	**2012** **RMB'000**	2011 RMB'000
Available-for-sale investments				
Equity securities listed in Hong Kong	**195,292**	254,879	**—**	—
Financial liabilities				
Derivative financial instruments	**—**	—	**6,496**	—

There were no transfers between all levels in both years.

7. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the amounts received and receivable for goods sold, net of sales taxes and return. The Group's major operation is the manufacture and sale of gear products.

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

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

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

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segments for the year under review.

	2012 RMB'000	2011 RMB'000
Segment revenue		
– PRC	4,905,898	5,996,537
– USA	1,287,750	1,005,332
– Europe	103,125	83,448
– Others	72,044	35,395
	6,368,817	7,120,712
Segment profit		
– PRC	969,715	1,466,411
– USA	394,245	245,847
– Europe	13,907	20,407
– Others	15,324	8,655
	1,393,191	1,741,320
Other income, gains and losses	94,222	(15,268)
Finance costs	(523,878)	(323,399)
Share of results of associates	(11,742)	1,172
Share of results of jointly controlled entities	(15,712)	24,622
Unallocated expenses	(728,412)	(733,371)
Profit before taxation	207,669	695,076

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the gross profit (including depreciation of production plants), government grants, sales of scraps and materials, and distribution and selling costs earned/incurred by each segment. The remaining items in the profit or loss are unallocated.

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment assets

	2012 RMB'000	2011 RMB'000
Segment assets		
– PRC	**3,799,366**	4,206,196
– USA	**181,833**	308,140
– Europe	**32,968**	14,813
– Others	**1,507**	1,037
Total segment assets	**4,015,674**	4,530,186
Unallocated assets	**15,866,560**	13,870,798
Consolidated total assets	**19,882,234**	18,400,984

Only the trade receivables of each segment are reported to the CODM for the purposes of resources allocation and performance assessment. Hence, total segment assets represent the trade receivables of the Group while the unallocated assets represent the assets of the Group excluding trade receivables. The related impairment loss on trade receivables are not reported to the CODM as part of segment results.

Other segment information

2012

	PRC RMB'000	USA RMB'000	Europe RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit:						
Allowance for inventories	22,636	5,942	476	332	—	29,386
Depreciation of production plants	364,343	95,636	7,659	5,350	31,608	504,596
Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:						
Impairment loss recognised (reversed) on trade receivables	104,763	(21,516)	—	—	—	83,247
Impairment loss on other receivables	2,530	—	—	—	—	2,530
Impairment loss on intangible assets	2,741	—	—	—	—	2,741

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Other segment information *(Continued)*

2011

	PRC RMB'000	USA RMB'000	Europe RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit:						
Allowance for inventories	32,186	5,396	448	190	—	38,220
Depreciation of production plants	382,110	64,061	5,317	2,255	25,474	479,217
Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:						
Impairment loss on trade receivables	90,126	23,157	—	—	—	113,283
Impairment loss on intangible assets	9,948	—	—	—	—	9,948

Revenue from major product and services

The following is an analysis of the Group's revenue from its major products:

	2012 RMB'000	2011 RMB'000
Wind gear transmission equipment	**3,951,965**	4,769,523
Gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills	**541,112**	400,144
Gear transmission equipment for construction materials	**474,064**	700,863
Marine gear transmission equipment	**250,940**	253,571
Diesel engine products	**175,519**	259,317
Computer numerical controlled products	**181,306**	61,450
General purpose gear transmission equipment	**91,067**	135,188
Transmission equipment for high-speed locomotives and urban light rails	**80,056**	51,046
High-speed heavy-load gear transmission equipment	**8,013**	23,282
Others	**614,775**	466,328
	6,368,817	7,120,712

Others mainly include the revenue from metallurgical engineering and equipment, boiler products, transmission parts and mining equipment.

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Geographical information

The Group's non-current assets by location of assets at the end of the reporting period are detailed below.

	Non-current assets	
	2012	2011
	RMB'000	RMB'000
PRC	**8,675,382**	7,754,279
USA	**17,497**	399
Others	**999**	2,315
	8,693,878	7,756,993

Note: The non-current assets exclude available-for-sale investments and deferred tax assets.

Information about major customers

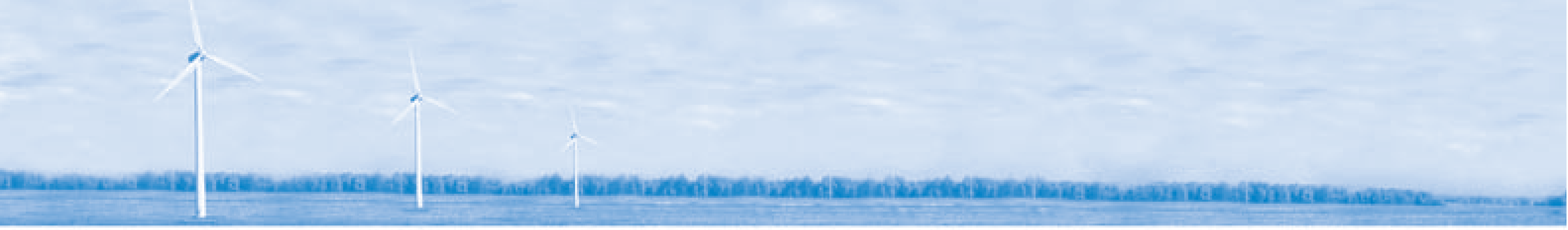
Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2012	2011
	RMB'000	RMB'000
Customer A[1]	**1,274,283**	1,005,332
Customer B[2]	**803,372**	925,222
Customer C[2]	**N/A[3]**	795,529

1 Revenue from sale of wind gear transmission equipment in the USA segment.

2 Revenue from sale of wind gear transmission equipment in the PRC segment.

3 The corresponding revenue did not contribute over 10% of the total sales of the Group.



8. OTHER INCOME

	2012 RMB'000	2011 RMB'000
Sales of scraps and materials	**89,357**	147,097
Bank interest income	**61,908**	45,469
Government grants (Note 1)	**29,259**	29,706
Cancellation fee received (Note 2)	**23,754**	—
Gain on disposal of property, plant and equipment	—	1,588
Others	**10,914**	7,753
	215,192	231,613

Notes:

1. The amounts mainly represent subsidies or incentives received from PRC local governments for the operations carried out by the Group. The amount includes release of deferred income of RMB4,253,000 (2011: RMB4,003,000). Details of deferred income are set out in note 33.

2. The amount represents cancellation fee received upon the cancellation of certain land purchase. The amount of cancellation fee is calculated in accordance with the terms of the land contract and is received together with the refund of the Group's deposits for those land lease in 2012.

9. OTHER GAINS AND LOSSES

	2012 RMB'000	2011 RMB'000
Net exchange (losses) gains	**(2,354)**	18,156
Loss on derivative financial instrument – equity swap (note 34)	—	(53,988)
Loss on fair value changes on convertible bonds (note 35)	—	(34,246)
	(2,354)	(70,078)

10. FINANCE COSTS

	2012 RMB'000	2011 RMB'000
Interests on bank borrowings wholly repayable within five years	567,724	389,105
Less: amount capitalised	(43,846)	(65,706)
	523,878	323,399

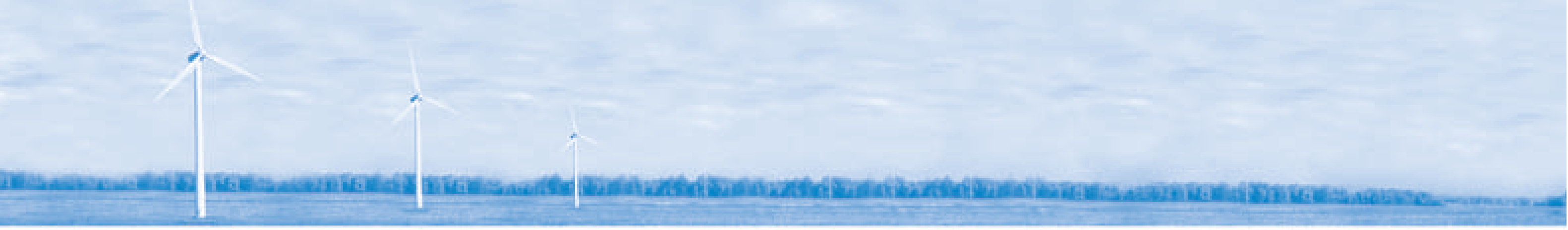
Borrowing costs capitalised during the year arose on the general borrowing pool (2011: specific borrowings) and are calculated by applying a capitalisation rate of 6.02% (2011: 6.15%) per annum to expenditure on qualifying assets.

11. TAXATION

	2012 RMB'000	2011 RMB'000
Current tax		
– PRC Enterprise Income Tax	111,010	159,155
– USA Corporate Income Tax	304	809
– Withholding tax on distribution of earnings from the PRC subsidiaries	46,196	—
	157,510	159,964
Under (over) provision in prior years		
– PRC Enterprise Income Tax	7,172	853
– USA Corporate Income Tax	(69)	974
	7,103	1,827
Deferred tax credit (note 24)	(85,416)	(14,303)
	79,197	147,488

No provision for Hong Kong Profits Tax and Singapore income tax has been made as the Group has no assessable profit arising in Hong Kong and Singapore, respectively.

Provision of the USA Federal and Statutory State Corporate Income Tax rates are made at the rates of 34% and 8.84% respectively for NGC Transmission Equipment (America) Inc., which is a 100% owned subsidiary incorporated in the USA. NGC Renewable LLC has not commenced operation and has no assessable profit for tax purpose.



11. TAXATION *(Continued)*

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2011: 25%).

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

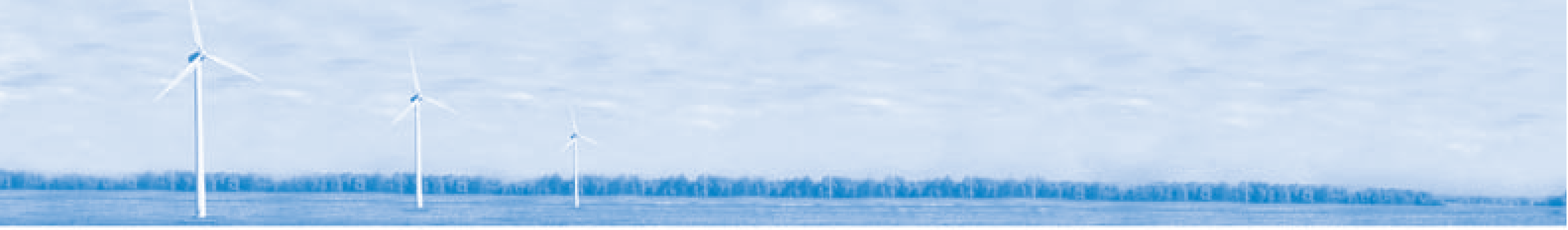
Name of subsidiary	Year ended during which approval was obtained	Year ending during which approval will expire
Nanjing High Speed Gear Manufacturing Co., Ltd.	31 December 2011	31 December 2013
Nanjing High Accurate Marine Equipment Co., Ltd.	31 December 2011	31 December 2013
Nanjing High Accurate	31 December 2011	31 December 2013
Nanjing Gaote Gear Box Manufacturing Co., Ltd.	31 December 2012	31 December 2014
Nanjing Sky Electronic Enterprise Co., Ltd.	31 December 2012	31 December 2014
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.	31 December 2012	31 December 2014
Zhenjiang Tongzhou Propeller Co., Ltd.	31 December 2010	31 December 2012

The EIT Law imposes withholding tax upon the distribution of the profits earned by the PRC subsidiaries on or after 1 January 2008 to their overseas shareholders. At 31 December 2012, deferred tax liabilities of RMB17,199,000 (2011: RMB60,895,000) has been recognised in the consolidated financial statements in respect of the temporary differences attributable to such undistributed profits.

11. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of comprehensive income as follows:

	2012 RMB'000	2011 RMB'000
Profit before taxation	**207,669**	695,076
Tax at income tax rate of 25% (2011: 25%)	**51,917**	173,769
Tax effect of share of results of associates and jointly controlled entities	**6,864**	(6,449)
Tax effect of expenses not deductible for tax purpose	**31,654**	38,645
Tax effect of income not taxable for tax purpose	**(352)**	(1,990)
Tax effect of tax losses not recognised	**32,119**	25,158
Utilisation of tax losses previously not recognised	**(510)**	(10,856)
Income tax on concessionary rate	**(52,201)**	(84,953)
Under provision in respect of prior years	**7,103**	1,827
Tax effect of undistributed earnings of the PRC subsidiaries	**2,500**	12,000
Effect of different tax rate of a subsidiary operating in a jurisdiction other than PRC	**103**	337
Tax charge for the year	**79,197**	147,488



12. PROFIT FOR THE YEAR

	2012 RMB'000	2011 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors' emoluments (note 13)	**899,898**	866,837
Less: staff cost included in research and development costs	**(64,367)**	(20,457)
staff cost included in intangible assets	**(8,249)**	(5,885)
	827,282	840,495
Auditor's remuneration	**3,110**	3,092
Allowance for inventories (included in cost of sales)	**29,386**	38,220
Cost of inventories recognised as an expense	**4,810,083**	5,299,681
Depreciation of property, plant and equipment	**504,596**	479,217
Release of prepaid lease payments	**14,261**	10,630
Amortisation of intangible assets	**69,040**	75,542
Net exchange losses (gains)	**2,354**	(18,156)
Loss (gain) on disposal of property, plant and equipment	**1,017**	(1,588)
Impairment losses on intangible assets (included in other expenses)	**2,741**	9,948
Impairment losses on trade and other receivables (included in other expenses) (note)	**85,777**	113,283

Note: During the year ended 31 December 2012, the Group provided RMB83,247,000 (2011: RMB113,283,000) of impairment loss on trade receivables. The impairment provided in current year are mainly from certain wind gear customers, as they have been in financial difficulties since 2011 and there had been delayed in payments. The Group assesses the recoverable amount of receivables and impairment has been made for the difference between recoverable amounts and carrying amounts.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid or payable to directors for both years are as follows:

	2012 RMB'000	2011 RMB'000
Directors		
– fee	360	360
– salaries and other allowances	21,979	20,929
– retirement benefit plan contributions	371	371
Total emoluments	22,710	21,660

	2012				2011			
	Fee RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000	Fee RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Hu Yueming	—	3,397	53	3,450	—	3,247	53	3,300
Chen Yongdao	—	3,097	53	3,150	—	2,947	53	3,000
Lu Xun	—	3,097	53	3,150	—	2,947	53	3,000
Li Shengqiang	—	3,097	53	3,150	—	2,947	53	3,000
Liu Jianguo	—	3,097	53	3,150	—	2,947	53	3,000
Liao Enrong	—	3,097	53	3,150	—	2,947	53	3,000
Jin Maoji	—	3,097	53	3,150	—	2,947	53	3,000
Chen Shimin	120	—	—	120	120	—	—	120
Zhu Junsheng	120	—	—	120	120	—	—	120
Jiang Xihe	120	—	—	120	120	—	—	120
Jiang Jianhua (Appointed on 31 December 2012)	—	—	—	—	—	—	—	—
	360	21,979	371	22,710	360	20,929	371	21,660

Mr Hu Yueming is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees

The five highest paid individuals of the Group for both years are all directors, details of their emoluments are set out above.

During the years ended 31 December 2012 and 2011, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

14. DIVIDENDS

	2012 **RMB'000**	2011 RMB'000
Dividends recognised as distribution:		
No dividend recognised as distribution during the year (2011: dividend of HK33 cents (equivalent to approximately RMB28 cents) per ordinary share as the final dividend for 2010)	—	374,918

For the year ended 31 December 2012, the directors of the Company do not recommend payment of an interim dividend and final dividend, nor has any dividend been proposed since the end of the reporting period (2011: nil).

15. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to the owners of the Company is based on the following data:

	2012 RMB'000	2011 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**138,426**	556,974

	2012 '000	2011 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,362,743**	1,367,325
Effect of dilutive potential ordinary shares:		
Share option	—	3,340
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,362,743**	1,370,665

The computation of diluted earnings per share for the year ended 31 December 2012 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares in 2012. Accordingly, the diluted earnings per share is same as the basic earnings per share for the year ended 31December 2012.

The computation of diluted earnings per share for the year ended 31 December 2011 excludes the effect arising from convertible bonds which will result an increase in earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Fixture and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Software RMB'000	Total RMB'000
COST									
At 1 January 2011	—	1,075,340	3,261,805	136,972	212,232	1,098,447	1,162	7,297	5,793,255
Additions	—	—	32,537	8,908	18,361	1,042,729	—	1,026	1,103,561
On acquisition of subsidiaries	—	77,182	8,556	1,557	1,058	9,352	—	697	98,402
Transfer	—	133,026	329,776	20,386	3,406	(486,594)	—	—	—
Disposals	—	—	(8,171)	(1,231)	(977)	(151)	—	—	(10,530)
At 31 December 2011	—	1,285,548	3,624,503	166,592	234,080	1,663,783	1,162	9,020	6,984,688
Additions	17,343	17,324	41,443	5,054	8,288	1,081,949	—	2,381	1,173,782
Transfer	—	569,445	708,765	18,598	19,149	(1,315,957)	—	—	—
Disposals	—	(11,594)	(48,008)	(1,330)	(954)	—	—	(108)	(61,994)
At 31 December 2012	17,343	1,860,723	4,326,703	188,914	260,563	1,429,775	1,162	11,293	8,096,476
DEPRECIATION									
At 1 January 2011	—	80,516	686,858	64,191	84,732	—	1,162	6,032	923,491
Provided for the year	—	81,462	331,204	26,240	40,233	—	—	78	479,217
Eliminated on disposals	—	—	(5,732)	(391)	(787)	—	—	—	(6,910)
At 31 December 2011	—	161,978	1,012,330	90,040	124,178	—	1,162	6,110	1,395,798
Provided for the year	—	63,313	374,140	26,834	38,298	—	—	2,011	504,596
Eliminated on disposals	—	(8,235)	(32,198)	(741)	(887)	—	—	—	(42,061)
At 31 December 2012	—	217,056	1,354,272	116,133	161,589	—	1,162	8,121	1,858,333
CARRYING VALUES									
At 31 December 2012	17,343	1,643,667	2,972,431	72,781	98,974	1,429,775	—	3,172	6,238,143
At 31 December 2011	—	1,123,570	2,612,173	76,552	109,902	1,663,783	—	2,910	5,588,890

The Group is in the process of obtaining property certificates for the buildings above with carrying amount of RMB1,147,341,000 (2011: RMB706,785,000) at the end of reporting period.

The freehold land is situated in the USA.

16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment other than freehold land and construction in progress are depreciated on a straight line basis, after taking into account their estimated residual value, at the following rates per annum:

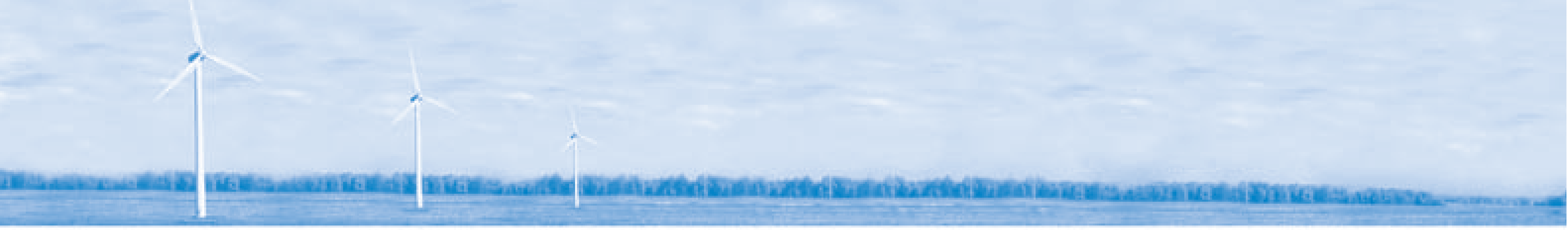
Buildings	2.8% - 6.5%
Plant and machinery	9.7% - 19.4%
Fixture and equipment	9.7% - 19.4%
Transportation equipment	16.2%
Leasehold improvements	Over the shorter of the lease terms or 3 years
Software	20%

17. PREPAID LEASE PAYMENTS

	2012 RMB'000	2011 RMB'000
Medium-term land use rights in the PRC	**958,778**	622,683
Analysed for reporting purpose as:		
Current assets	**20,330**	13,321
Non-current assets	**938,448**	609,362
	958,778	622,683

The amount represents land use rights for leasehold interest in land situated in the PRC with usage rights of 50 years.

Included in medium-term prepaid lease payments are land use rights located in the PRC with carrying amount of RMB551,203,000 (2011: RMB238,279,000). The Group is in the process of obtaining these land use rights certificates.



18. GOODWILL

	Amount
	RMB'000
COST AND CARRYING VALUES	
At 1 January 2011, 31 December 2011 and 31 December 2012	17,715

For the purposes of impairment testing, the carrying values of goodwill have been allocated to three groups of cash generating units ("CGUs"), as follows:

	Goodwill
	2012 & 2011
	RMB'000
Manufacture and sales of propellers ("Unit A")	12,091
Engineering processing and manufacturing ("Unit B")	2,991
Manufacture and sales of diesel engines ("Unit C")	2,633
	17,715

The recoverable amounts of the above CGUs been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and discount rate of 11.00%, 11.00% and 10.00% for Unit A, Unit B and Unit C, respectively (2011: 6.56%, 6.56% and 6.56% for Unit A, Unit B and Unit C, respectively). Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on these units' past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of these CGUs to exceed the aggregate recoverable amount of the CGUs. As a result, the management determined that there is no impairment loss to be recognised.

19. INTANGIBLE ASSETS

	Development costs RMB'000	Technical know-how RMB'000	Total RMB'000
COST			
At 1 January 2011	293,549	—	293,549
Additions	121,060	15,883	136,943
On acquisition of a subsidiary	—	23,280	23,280
At 31 December 2011	414,609	39,163	453,772
Additions	78,284	—	78,284
At 31 December 2012	492,893	39,163	532,056
AMORTISATION AND IMPAIRMENT			
At 1 January 2011	96,979	—	96,979
Charge for the year	72,043	3,499	75,542
Impairment loss recognised in the year	9,948	—	9,948
At 31 December 2011	178,970	3,499	182,469
Charge for the year	66,391	2,649	69,040
Impairment loss recognised in the year	2,741	—	2,741
At 31 December 2012	248,102	6,148	254,250
CARRYING VALUES			
At 31 December 2012	244,791	33,015	277,806
At 31 December 2011	235,639	35,664	271,303

Development costs are internally generated for the Group's self-developed new products. Technical know-how were acquired from third parties or purchased as part of a business combination in prior years. The intangible assets have finite useful lives, and are amortised on a straight-line basis over the following periods:

Development costs	5 years
Technical know-how	5 - 10 years

During the year ended 31 December 2012, an impairment loss of approximately RMB2,741,000 (2011: RMB9,948,000) was recognised due to insufficient sales order for these development projects.

20. INTERESTS IN ASSOCIATES

	2012 RMB'000	2011 RMB'000
Cost of unlisted investments in associates	**194,845**	185,845
Share of post-acquisition results	**(11,521)**	221
	183,324	186,066

At 31 December 2012, included in the cost of investments in associates is goodwill of RMB11,491,000 (2011: RMB11,491,000) arising on acquisitions of associates in prior years. There is no unrecognised share of losses in associates on 31 December 2012 and 2011.

As at 31 December 2012 and 2011, the Group had interests in the following associates:

Name of entity	Form of business structure	Country of establishment/ principal place of operation	Proportion of nominal value of registered capital and proportion of voting power held by the Group		Principal activity
			2012	2011	
南京朗勁風能設備製造有限公司 Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd. ("Nanjing Longwin")	PRC equity joint venture	PRC	**40%**	40%	Manufacture and sales of wind power transmission equipment and fittings
南京蘇陽光電薄膜有限公司 Nanjing Suyang Photoelectric Thin Film Co., Ltd.	PRC equity joint venture	PRC	**25%**	25%	Manufacture and sales of photoelectric thin film
江蘇博明物流有限公司 Jiangsu Boming Logistic Co., Ltd. ("Jiangsu Boming")	PRC equity joint venture	PRC	**20%**	20%	Logistic and transportation

20. INTERESTS IN ASSOCIATES *(Continued)*

Name of entity	Form of business structure	Country of establishment/ principal place of operation	Proportion of nominal value of registered capital and proportion of voting power held by the Group		Principal activity
			2012	2011	
長源(南京)鑄造有限公司 Chang Yuan (Nanjing) Casting Co. Ltd. ("Nanjing Changyuan")	PRC equity joint venture	PRC	30%	30%	Manufacture and sales of metal casting
南通富來威農業裝備有限公司 Nantong FLW Agricultural Equipment Co. Ltd. ("Nantong FLW")	PRC equity joint venture	PRC	49.58%	49.58%	Manufacture and sales of agriculture equipment
南京伊晶能源有限公司 Nanjing E-crystal Energy Co., Ltd. ("Nanjing E-crystal")	PRC equity joint venture	PRC	29.63%	29.63%	Manufacture and sales of LED material
蘇州晟創投資企業 Suzhou Shengchuang Investment Fund	PRC limited partnership	PRC	24.79%	24.79%	Investment management

20. INTERESTS IN ASSOCIATES *(Continued)*

The summarised financial information in respect of the Group's associates is set out below:

	2012 RMB'000	2011 RMB'000
Total assets	**761,996**	751,110
Total liabilities	**(304,475)**	(324,554)
Net assets	**457,521**	426,556
Group's share of net assets of associates	**171,833**	174,575
Total revenue	**439,425**	566,934
Total (loss) profit for the year	**(40,019)**	2,079
Group's share of results of associates for the year	**(11,742)**	1,172

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2012 RMB'000	2011 RMB'000
Cost of unlisted investments in jointly controlled entities	**587,120**	587,120
Share of post-acquisition results, net of dividend received	**25,452**	65,164
	612,572	652,284

At 31 December 2012, included in the cost of investment in jointly controlled entities is goodwill of RMB17,920,000 (2011: RMB17,920,000) arising on acquisition of a jointly controlled entity in prior years.

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

As at 31 December 2012 and 2011, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Country of establishment/ principal place of operation	Proportion of nominal value of registered capital and proportion of voting power held by the Group		Principal activity
			2012	2011	
南京高精工程設備有限公司 Nanjing High Accurate Construction Equipment Co., Ltd. ("Nanjing Construction")	PRC equity joint venture	PRC	50%	50%	Engineering processing and manufacturing
江蘇省宏晟重工集團有限公司 Jiangsu Hongsheng Heavy Industries Group Co., Ltd. ("Jiangsu Hongsheng")	PRC equity joint venture	PRC	50.01%	50.01% (Note)	Manufacture and sales of forged steel and fittings
山東能源集團中傳重裝礦用設備製造有限公司 Shandong Energy Machinery Group Zhong-Chuan Heavy Duty Mine Equipment Manufacturing Co., Ltd. ("Shandong Heavy Duty")	PRC equity joint venture	PRC	50%	50%	Manufacture and sales of heavy duty equipment

Note: The Group holds 50.01% of the registered capital of Jiangsu Hongsheng and holds 50.01% of the voting power in general meeting. However, under the joint venture agreement, Jiangsu Hongsheng is jointly controlled by the Group and the other party because the financial and operating decisions relating to the activity of Jiangsu Hongsheng require the unanimous consent of the Group and the other party sharing the control. Therefore, Jiangsu Hongsheng is classified as a jointly controlled entity of the Group.

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The summarised financial information in respect of the Group's interests in the jointly controlled entities attributable to the Group's interest therein which are accounted for using equity method is set out below:

	2012 RMB'000	2011 RMB'000
Current assets	**1,040,854**	859,840
Non-current assets	**495,334**	501,456
Current liabilities	**754,716**	629,130
Non-current liabilities	**186,820**	79,882
Income recognised in profit or loss	**600,863**	768,616
Expenses recognised in profit or loss	**616,575**	743,994

22. AVAILABLE-FOR-SALE INVESTMENTS

		2012 RMB'000	2011 RMB'000
Equity securities listed in Hong Kong, at fair value	(1)	**195,292**	254,879
Unlisted equity securities issued by private entities established in the PRC, at cost	(2)	**111,366**	108,066
		306,658	362,945

Notes:

(1) On 2 December 2011, the Group entered into a cornerstone agreement (the "Cornerstone Investment Agreement") with, amongst other parties, 國電科技環保集團股份有限公司Guodian Technology & Environment Group Corporation Limited ("Guodian Tech"), a joint stock limited company incorporated in the PRC with limited liability, to the proposed USD40,000,000 (equivalent to approximately RMB254,879,000) equity investment in Guodian Tech. Upon the listing of Guodian Tech's shares on the Stock Exchange on 30 December 2011, the Cornerstone Investment Agreement is completed and 144,100,000 H shares of Guodian Tech each priced at HKD2.16 are issued to the Group, which accounts for 12.12% of the total issued H share, and 2.42% of the total issued shares of Guodian Tech at 30 December 2011.

At 31 December 2012, the amount represents the Group's equity investment in Guodian Tech, measured at fair value at end of reporting period.

(2) The amount represents the investments in unlisted equity securities issued by private entities established in the PRC and are held by the Group as non-current assets, which are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

23. DEPOSIT FOR LAND LEASE

	2012 RMB'000	2011 RMB'000
Deposit for land lease	336,042	400,000

The amount represents deposit for land lease with total consideration of approximately RMB474 million (2011: RMB709 million) which has been paid partly in relation to the acquisition of land leases situated in the PRC and the transfer is subject to the approval of the PRC government. During the year, deposit for land lease amounted to RMB112,400,000 (2011: RMB19,658,000) had been transferred to prepaid lease payments account.

24. DEFERRED TAX

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the year:

	Doubtful debts allowance RMB'000	Inventories allowance RMB'000	Capitalisation of development costs RMB'000 (note)	Withholding tax RMB'000	Deferred income RMB'000	Warranty provision RMB'000	Tax loss RMB'000	Others RMB'000	Total RMB'000
At 1 January 2011	(12,309)	(10,235)	37,271	48,895	(14,186)	–	–	–	49,436
(Credit) charge to profit or loss (note11)	(17,187)	(1,485)	6,135	12,000	833	(12,189)	–	(2,410)	(14,303)
At 31 December 2011	(29,496)	(11,720)	43,406	60,895	(13,353)	(12,189)	–	(2,410)	35,133
(Credit) charge to profit or loss (note11)	(16,181)	(3,581)	3,353	2,500	(7,769)	(1,647)	(16,526)	631	(39,220)
Reversal upon payment of withholding tax	–	–	–	(46,196)	–	–	–	–	(46,196)
At 31 December 2012	(45,677)	(15,301)	46,759	17,199	(21,122)	(13,836)	(16,526)	(1,779)	(50,283)

Note: The development costs were deductible for tax purpose in the year they were incurred while they were capitalised and subject to amortisation in the consolidated financial statements.

24. DEFERRED TAX *(Continued)*

The following is the analysis of the deferred tax balances for financial reporting presentation purposes:

	2012 RMB'000	2011 RMB'000
Deferred tax assets	**(68,525)**	(27,933)
Deferred tax liabilities	**18,242**	63,066
	(50,283)	35,133

At 31 December 2012, the Group has unused tax losses of RMB312,493,000 (2011: RMB100,632,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB85,427,000 (2011: nil) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB227,066,000 (2011: RMB100,632,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits.

Under the EIT Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends relating to profits earned by the companies established in the PRC in the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary differences attributable to such profits and no deferred taxation has been provided for the remaining profits of approximately RMB3,054 million as at 31 December 2012 (2011: RMB2,613 million) as the Group is able to control the timing of the distribution and it is probable that the amount will not be distributed in the foreseeable future. The Group has applied the preferential rate of 5% as all the Company's subsidiaries in the PRC are directly held by an investment holding company incorporated in Hong Kong.

25. INVENTORIES

	2012 RMB'000	2011 RMB'000
Raw materials	**465,458**	445,156
Work in progress	**688,968**	589,345
Finished goods	**626,078**	764,517
	1,780,504	1,799,018

26. TRADE AND OTHER RECEIVABLES

	2012 RMB'000	2011 RMB'000
Accounts receivable	**3,127,199**	3,086,721
Bills receivable	**1,153,277**	1,625,020
Less: allowance for doubtful debts of accounts receivable	**(264,802)**	(181,555)
Total trade receivables	**4,015,674**	4,530,186
Advances to suppliers	**440,243**	295,953
Value-added tax recoverable	**137,208**	45,990
Other receivables	**77,342**	65,508
Less: allowance for doubtful debts of other receivable	**(2,530)**	—
Total trade and other receivables	**4,667,937**	4,937,637

The Group generally allows a credit period of 180 days to its trade customers. The following is an aged analysis of the trade receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2012 RMB'000	2011 RMB'000
0 - 90 days	**1,987,109**	2,666,835
91 - 120 days	**376,173**	421,471
121 - 180 days	**669,599**	823,531
181 - 365 days	**690,835**	548,521
1 - 2 years	**259,552**	55,349
Over 2 years	**32,406**	14,479
	4,015,674	4,530,186

The trade receivable balances of RMB3,032,881,000 (2011: RMB3,911,837,000) are neither past due nor impaired at the end of the reporting period for which the Group has not provided for impairment loss since they are mainly the customers with good quality. No impairment loss was made on advance to suppliers since they are with good credit quality.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB982,793,000 (2011: RMB618,349,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable as there are continuing subsequent settlement. At 31 December 2012, the Group hold letters of credit issued by the customers' banks amounted to RMB220,000,000 (2011: RMB439,187,000) over these balances.

Ageing of trade receivables which are past due but not impaired

	2012 RMB'000	2011 RMB'000
181 - 365 days	690,835	548,521
1 - 2 years	259,552	55,349
Over 2 years	32,406	14,479
Total	982,793	618,349

Movement in the allowance for doubtful debts for trade receivables

	2012 RMB'000	2011 RMB'000
Balance at beginning of the year	181,555	71,955
Impairment losses recognised on trade receivables	83,247	113,283
Amounts written off as uncollectible	—	(3,683)
Balance at end of the year	264,802	181,555

Movement in the allowance for doubtful debts for other receivables

	2012 RMB'000	2011 RMB'000
Impairment losses recognised on other receivables and balance at end of the year	2,530	—

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB267,332,000 (2011: RMB181,555,000) which have either been placed under liquidation or in financial difficulties. The Group does not hold any collateral over these balances.

26. TRADE AND OTHER RECEIVABLES *(Continued)*

Transfers of financial assets

The following were the Group's financial assets as at 31 December 2012 that were transferred to suppliers to settle its payables by endorsing those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and the payables to suppliers. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2012

	Bills receivable endorsed to suppliers with full recourse RMB'000
Carrying amount of transferred assets	159,679
Carrying amount of associated liabilities	159,679
Net position	—

In addition to the above, as discussed in note 2, as at 31 December 2012, the Group has discounted certain bills receivable to banks and transferred certain bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers, both with full recourse. The Group has derecognised these bills receivables and the payables to suppliers in their entirety as in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers under the relevant PRC practice, rule and regulations. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2012, the Group's maximum exposure to loss and cash outflow, which is same as the amount payable by the Group to collecting banks or the suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB235,548,000 and RMB487,256,000, respectively.

All the bills receivable discounted to banks or endorsed to suppliers of the Group have a maturity date of less than six months from the end of the reporting period.

27. AMOUNTS DUE FROM/TO ASSOCIATES

	2012 RMB'000	2011 RMB'000
Amounts due from:		
Nanjing Longwin	4,618	13,632
Nanjing Changyuan	889	211
Nanjing E-crystal	—	16,588
	5,507	30,431
Amounts due to:		
Nanjing E-crystal	69,278	—
Nantong FLW	6,998	—
Jiangsu Boming	200	397
	76,476	397

Included in the balance of amount due to Nanjing E-crystal is RMB53,163,000 (2011: nil) related to purchase of property, plant and equipment, the remaining amounts due from/to associates relate to trade balance and aged within 120 days. The amounts are unsecured, interest-free and repayable within 180 days.

28. AMOUNTS DUE FROM JOINTLY CONTROLLED ENTITIES/AMOUNT TO A JOINTLY CONTROLLED ENTITY

	2012 RMB'000	2011 RMB'000
Amounts due from:		
Jiangsu Hongsheng	18,314	26,744
Nanjing Construction	16,657	—
Shandong Heavy Duty	835	—
	35,806	26,744
Amount due to:		
Nanjing Construction	—	11,686

The amounts due from jointly controlled entities relate to trade balances and aged within 120 days. The amount is unsecured, interest-free and repayable within 180 days.

The amount due to a jointly controlled entity as at 31 December 2011 related to trade balances and was settled during the year.

29. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances carry interest at prevailing market deposit rates which range from 0.01% to 0.35% (2011: 0.01% to 0.5%) per annum. The pledged bank deposits carry fixed interest rate of 2.8% (2011: 3.3%) per annum and pledged to secure short-term banking facilities.

30. TRADE AND OTHER PAYABLES

	2012 RMB'000	2011 RMB'000
Accounts payable	**1,533,857**	1,173,395
Notes payable (Note)	**449,585**	569,359
Total trade payables	**1,983,442**	1,742,754
Advances from customers	**360,987**	536,626
Purchase of property, plant and equipment	**260,965**	253,052
Payroll and welfare payables	**149,902**	175,539
Accrued expenses	**76,534**	48,184
Value-added and other tax payable	**51,939**	17,144
Deferred income	**9,856**	6,104
Other payables	**51,654**	46,459
	2,945,279	2,825,862

Note: Notes payable are secured by certain of the Group's assets, details of which are set out in note 29.

The following is an aged analysis of trade payables based on invoice date at the end of the reporting period:

	2012 RMB'000	2011 RMB'000
0 - 30 days	**589,788**	625,363
31- 60 days	**251,959**	327,969
61 - 180 days	**925,382**	707,914
181 - 365 days	**142,876**	40,981
Over 365 days	**73,437**	40,527
	1,983,442	1,742,754

The credit period on purchases of goods is 30 days to 180 days.

31. BORROWINGS

	2012 RMB'000	2011 RMB'000
Bank loans	7,937,357	7,618,457
Short-term unsecured commercial paper (Note)	800,000	—
	8,737,357	7,618,457
Secured	1,314,341	1,581,255
Unsecured	7,423,016	6,037,202
	8,737,357	7,618,457
Carrying amount repayable*:		
Within one year	6,732,831	4,991,382
More than one year, but not exceeding two years	627,938	1,115,600
More than two years, but not more than five years	660,300	1,511,475
	8,021,069	7,618,457
Carrying amount of an unsecured syndicated loan that is repayable on demand due to breach of covenants (shown under current liabilities)	716,288	—
	8,737,357	7,618,457
Less: Amounts due within one year shown under current liabilities	(7,449,119)	(4,991,382)
Amounts due over one year	1,288,238	2,627,075

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Note: In March 2012, Nanjing High Speed Gear Manufacturing Co., Ltd, a wholly-owned subsidiary of the Group, issued an unlisted and unsecured short-term commercial paper of RMB800,000,000, which carries an interest rate of 6.6% per annum and shall be repayable in March 2013.

31. BORROWINGS *(Continued)*

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	2012 RMB'000	2011 RMB'000
Fixed-rate borrowings:		
Within one year	**4,305,894**	2,897,802

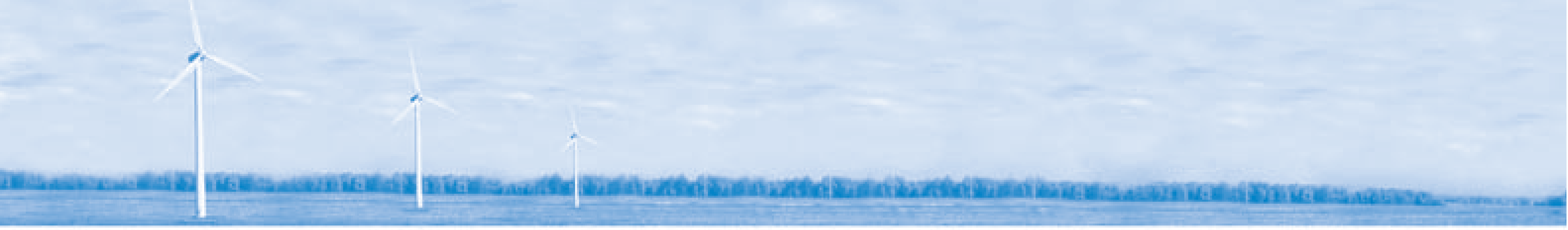
In addition, the Group has variable-rate borrowings of RMB4,431,463,000 (2011: RMB4,720,655,000) which carry interest rates based on the rate of People's Bank of China prescribed interest rate, the HIBOR or the LIBOR.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2012 %	2011 %
Effective interest rate:		
Fixed-rate borrowings	**4.70 - 7.64**	4.00 - 8.30
Variable-rate borrowings	**1.30 - 6.90**	4.76 - 8.53

As at 31 December 2012, the Group's borrowings that are denominated in currencies other than RMB (the functional currency of relevant group entities) are USD154,975,000, EUR1,423,000, and HKD1,039,896,000, which are equivalent to RMB974,291,000, RMB11,837,000 and RMB843,148,000 respectively (2011: USD94,709,000, EUR6,059,000 and HKD1,050,000,000, which were equivalent to RMB596,753,000, RMB49,457,000 and RMB851,235,000). All other bank borrowings are denominated in RMB.

The above secured bank borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 40.



32. WARRANTY PROVISION

	1.1.2012	Accrual	Utilisation	**31.12.2012**
	RMB'000	RMB'000	RMB'000	**RMB'000**
Warranty provision	81,261	55,340	(44,362)	**92,239**

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

33. DEFERRED INCOME

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

34. DERIVATIVE FINANCIAL INSTRUMENTS

		2012	2011
		RMB'000	RMB'000
Equity swap	(1)	—	—
Cash flow hedge- interest rate swaps	(2)	**(6,496)**	—
		(6,496)	—

34. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(1) Equity swap

Concurrent with the issuance of the 2008 Convertible Bonds as defined and disclosed in note 35, the Company entered into a net cash settled equity swap transaction (the "Original Equity Swap") with Morgan Stanley & Co. International plc (the "Equity Swap Counterparty"). The Original Equity Swap would only be settled in cash at Maturity (as defined below). According to the Original Equity Swap, the Company was required to deposit an amount of approximately HKD1,113 million (equivalent to approximately RMB982 million) as restricted cash with the Equity Swap Counterparty which is unsecured and carried no interest. Such deposit was refundable to the Group at Maturity (defined below), and was calculated as the notional underlying shares of 81,370,707 multiplied by the initial price of HKD13.6783 (equivalent to approximately RMB12.27) (the "Initial Price").

According to the Original Equity Swap agreement, the Original Equity Swap would be matured on 14 May 2011 (the "Maturity"), at which time (i) the Company would receive a payment from the Equity Swap Counterparty if the final price of the Company's share was higher than the Initial Price or, (ii) the Company would make payment to the Equity Swap Counterparty if the final price was lower than the Initial Price (the "Net Settlement Arrangement"). The final price would be determined with reference to the volume weighted average price of the Company's share on the date of settlement.

According to amendment confirmations entered into between the Company and the Equity Swap Counterparty on 28 October 2008 and 4 May 2009, respectively, optional early termination rights of 68,758,000 shares out of the total 81,370,707 shares, exercised at HKD12.8495, were granted and exercisable at the option of the Company. The Company exercised the early termination rights in 2009 and the number of notional underlying shares and the deposit required was reduced to 12,612,707 shares and approximately HKD172 million respectively (equivalent to approximately RMB151 million) (the "Reduced Deposit").

On 6 November 2009, the Group entered into another amendment with the Equity Swap Counterparty (the "November 2009 Equity Swap") whereas a share delivery option (the "Share Delivery Option") was added to allow the Company to receive the number of equity shares specified in the November 2009 Equity Swap in lien of getting the refund of Reduced Deposit at Maturity. If the Company exercises such option, the Net Settlement Arrangement would be terminated and the obligation for the Equity Swap Counterparty to repay the Reduced Deposit would be terminated. The maturity date remains the same as the Original Equity Swap.

34. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(1) Equity swap *(Continued)*

Upon the maturity of the November 2009 Equity Swap, on 16 May 2011, being the first business day after the maturity date, the Company elected to exercise the Share Delivery Option and the Equity Swap Counterparty delivered to the Company the 12,612,707 shares of the Company and the Equity Swap Counterparty's obligation to repay the Reduced Deposit (i.e. HKD172 million or approximately RMB144 million) to the Company was extinguished.

A loss of RMB53,988,000 in respect of the maturity of the November 2009 Equity Swap was recognised under other gains and losses in the profit or loss for the year ended 31 December 2011, which represented the loss on extinguishment of the November 2009 Equity Swap and the difference between the market price of 12,612,707 shares at the maturity date and the Reduced Deposit.

(2) Cash flow hedge – interest rate swaps

Since 2012, the Group uses interest rate swaps as hedging instruments in order to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowings from floating rates to fixed rates. The interest rate swaps and the corresponding bank borrowings have the similar terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps at 31 December 2012 are set out below:

Notional amount	Maturity	Swaps
HKD236,250,000	18 April 2014	From HIBOR+2.05% to 2.80%
HKD551,250,000	11 April 2014	From HIBOR+2.05% to 2.87%
USD3,712,500	18 April 2014	From LIBOR+2.05% to 2.80%
USD8,662,500	11 April 2014	From LIBOR+2.05% to 2.93%

As at 31 December 2012, fair value loss of RMB6,496,000 (2011: nil) have been recognised in the other comprehensive income and accumulated in equity and are expected to be released to the consolidated statement of comprehensive income upon the payment of interest expense in accordance with the terms as stipulated in the bank borrowing agreements.

The above derivatives are measured at fair value which is estimated using valuation technique with reference to interest yield and discounted cash flow analysis.

34. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(2) Cash flow hedge – interest rate swaps *(Continued)*

The movement of the derivative financial instruments for the year is set out below:

	2012 RMB'000		2011 RMB'000	
	Interest rate swap	Equity swap	Interest rate swap	Equity swap
At 1 January	—	—	—	18,392
Loss for the year recognised in other comprehensive income	(6,496)	—	—	—
Loss for the year recognised in profit or loss	—	—	—	(53,988)
Settlement of the November 2009 Equity Swap on maturity	—	—	—	35,596
At 31 December	(6,496)	—	—	—

35. CONVERTIBLE BONDS

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds (the "2008 Convertible Bonds") with an aggregate principal amount of RMB1,996.3 million. The 2008 Convertible Bonds were convertible at the option of bond holders into fully paid shares with a par value of USD0.01 each of the Company at a conversion price of HKD17.78 per share, which was subsequently adjusted to HKD17.2886 as a result of the payment of final dividend for 2007 and 2008 and further adjusted to HKD16.9817 as a result of payment of final dividend for 2009 as required according to the conditions of the 2008 Convertible Bonds with a fixed exchange rate of HKD1.00 to RMB0.8968 for conversion, but would be subject to adjustment for, among other things, subdivision or consolidation of shares, bonus issues, rights issues, distribution and other dilutive events. If the 2008 Convertible Bonds have not been converted, they would be redeemed in May 2011 at an amount equal to the USD equivalent of its principal amount in RMB multiplied by 109.3443%. The Company, however, has the option to mandatorily convert all or some of the 2008 Convertible Bonds provided that: (i) the closing price of the shares, for 20 out of 30 consecutive trading days, was at least 120% of the early redemption amount in effect on such trading days divided by the conversion ratio; or (ii) at least 90% of the 2008 Convertible Bonds have been redeemed, purchased, converted or cancelled. Due to the existence of a cash settlement option in the event of conversion, whereby the Company could settle in cash in lieu of delivery of the relevant shares by paying cash to the bondholders, the 2008 Convertible Bonds were regarded as financial liabilities with embedded derivatives for the conversion and redemption options and the entire 2008 Convertible Bonds were designated as financial liabilities at FVTPL.

35. CONVERTIBLE BONDS *(Continued)*

On 16 May 2011, the Company redeemed the entire outstanding principal amount of RMB1,147,000,000 of the 2008 Convertible Bonds, for a consideration of approximately USD192,936,000 (equivalent to approximately RMB1,254,179,000), being an amount equal to the USD equivalent of the principal amount of the bonds in RMB multiplied by 109.3443%, with a loss of RMB34,246,000 recognised in profit or loss for the year ended 31 December 2011.

The movement of the 2008 Convertible Bonds for the year ended 31 December 2011 is set out below:

	RMB'000
As at 1 January 2011	1,219,933
Loss on fair value changes on convertible bonds	34,246
Redemption of convertible bonds at maturity	(1,254,179)
As at 31 December 2011	—

36. SHARE CAPITAL

	Number of shares (in thousand)	Amount USD'000	Equivalent to RMB'000
Ordinary shares of USD0.01 each			
Authorised:			
1 January 2011, 31 December 2011 and 31 December 2012	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2011	1,375,071	13,750	103,345
Exercise of share options (Note (a))	285	3	19
On maturity of the November 2009 Equity Swap (Note (b))	(12,613)	(126)	(821)
At 31 December 2011 and 31 December 2012	1,362,743	13,627	102,543

Notes:

(a) During the year ended 31 December 2011, 285,200 shares of the Company of USD0.01 each were issued upon the exercise of 285,200 share option on 1 June 2011 at an exercise price of HKD5.6 per share option.

(b) As detailed in note 34, the Equity Swap Counterparty delivered to the Company on the maturity date of the November 2009 Equity Swap 12,612,707 shares of the Company and they were cancelled by the Company.

The shares issued in 2011 rank pari passu with the then existing shares in all respects.

37. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 8 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 8 June 2017. Under the Scheme, the Board of Directors of the Company may grant options to:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and

(iv) such other persons who, in the sole opinion of the Board of Directors, will contribute or have contributed to the Group. The assessment criteria of which are:

- contribution to the development and performance of the Group;
- quality of work performed for the Group;
- initiative and commitment in performing his/her duties; and
- length of service or contribution to the Group

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders to refresh the said limit to not exceed 30% of the issued share capital of the Company from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of their associates in excess of 0.1% of the Company's share capital or with a value in excess of HKD 5 million must be approved in advance by the Company's shareholders.

Option granted must be taken up within 12 months of the date of grant, upon payment of HKD1 per grant. Options may be exercised at any time after the date upon which the option is deemed to be granted and accepted and prior to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and must be at least the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

37. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table discloses movements of the Company's share options held by employees during the year:

Date of grant	Exercise price HKD	Exercisable period	Outstanding at 1.1.2011	Exercised during the year	Outstanding and exercisable at 31.12.2011 and 31.12.2012
6 November 2008	5.6	6.11.2008 to 6.11.2013	12,000,000	(285,200)	11,714,800

The estimated fair value of the options on the date of grant is RMB30,030,000 and has been fully recognised in the employee benefit expenses in profit or loss for the year ended 31 December 2008.

No share option has been exercised during the year ended 31 December 2012. The weighted average share price at the time of exercise was HKD 10.97 per share during the year ended 31 December 2011.

38. ACQUISITION OF SUBSIDIARIES

For the year ended 31 December 2012

There is no acquisition of subsidiaries during the year.

For the year ended 31 December 2011

On 18 April 2011, the Group acquired the entire equity interest of Global Power Asia Limited, which owns 90% equity interest of 南京奧能鍋爐有限公司AE&E Nanjing Boiler Co., Ltd. ("AE&E Nanjing") through China Transmission Holdings Limited, a wholly-owned subsidiary of the Group, at a cash consideration of EUR5,000,000 (equivalent to approximately RMB47,306,000). The principal activities of the AE&E Nanjing are manufacturing and sale of industrial boilers, heat recovery equipment and related products and were acquired with the objective of diversification. Global Power Asia Limited and AE&E Nanjing are collectively referred to as the Global Group.

On 23 November 2011, the Group acquired 63% equity interest of 江蘇晶瑞半導體有限公司Jiangsu E-lite Semiconductors Co., Ltd. ("Jiangsu E-lite") through 南京晶瑞半導體有限公司Nanjing E-lite Semiconductors Co., Ltd. ("Nanjing E-lite"), a 60.02% owned subsidiary of the Group, at a cash consideration of RMB38,002,000. The principal activities of Jiangsu E-lite are manufacturing of LED chips and related products and were acquired with the objective of diversification.

Acquisition-related costs amounting to RMB80,000 have been excluded from the cost of acquisition and have been recognised as an expense within the "other expenses" line item in the consolidated statement of comprehensive income.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2011 *(Continued)*

The above transactions were accounted for using the acquisition method of accounting.

Assets and liabilities recognised at fair value at the date of acquisition:

	Global Group	Jiangsu E-lite	Total
	RMB'000	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	88,806	9,595	98,401
Prepaid lease payments	67,537	16,025	83,562
Intangible assets	—	23,280	23,280
Current assets			
Inventories	18,166	—	18,166
Trade and other receivables	24,866	23,674	48,540
Bank balances and cash	2,731	3,276	6,007
Current liabilities			
Trade and other payables	(124,544)	(15,530)	(140,074)
Bank borrowings	(25,000)	—	(25,000)
	52,562	60,320	112,882

The receivables of Global Group acquired (which principally comprised trade receivables) with a fair value of RMB24,866,000 had gross contractual amounts of RMB55,966,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RMB31,100,000.

38. ACQUISITION OF SUBSIDIARIES *(Continued)*

Non-controlling interest

The non-controlling interest in Global Group and in Jiangsu E-lite respectively recognised at the acquisition date were measured at the proportionate share of the fair value of the corresponding net identifiable net assets at the acquisition date.

Goodwill arising on acquisition

	Global Group RMB'000	Jiangsu E-lite RMB'000	Total RMB'000
Consideration transferred	47,306	38,002	85,308
Plus: non-controlling interests	5,256	22,318	27,574
Less: fair value of identifiable net assets acquired	(52,562)	(60,320)	(112,882)
Goodwill arising on acquisition	—	—	—

Net cash inflow arising on acquisition

	Global Group RMB'000	Jiangsu E-lite RMB'000	Total RMB'000
Consideration paid in cash	(47,306)	(38,002)	(85,308)
Less: cash and cash equivalent balances acquired	2,731	3,276	6,007
	(44,575)	(34,726)	(79,301)

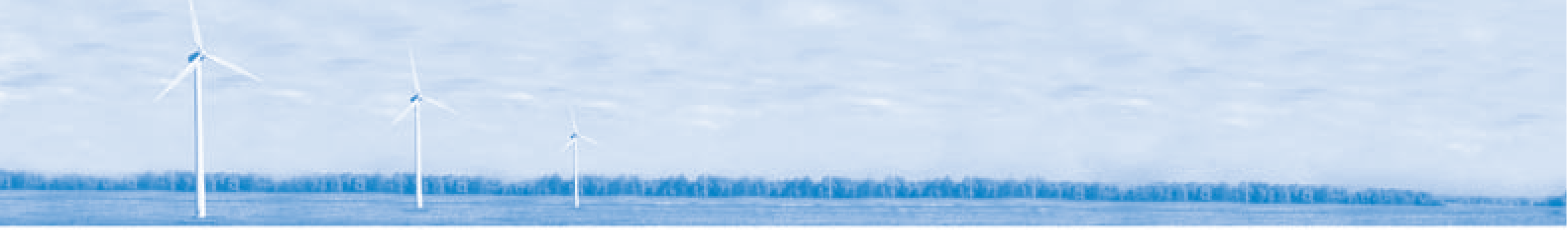
39. CAPITAL COMMITMENTS

	2012 RMB'000	2011 RMB'000
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
– the acquisition of land leases	**138,075**	309,400
– the acquisition of property, plant and equipment	**849,023**	561,004
– the additional investments in an associate	**12,000**	—
	999,098	870,404

40. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to banks to secure banking facilities granted to the Group:

	2012 RMB'000	2011 RMB'000
Bank deposits	**1,897,712**	1,252,922
Accounts receivable	**860,205**	—
Bills receivable	**18,129**	1,235,761
Property, plant and equipment	**46,017**	81,194
Prepaid lease payments	**10,116**	10,327
	2,832,179	2,580,204



41. OPERATING LEASES

Minimum lease payments paid under operating leases during the year:

	2012 RMB'000	2011 RMB'000
Factory and office premises	**6,853**	4,797

At the end of the reporting period, the Group had outstanding commitments payable under non-cancellable operating leases in respect of factory and office premises which fall due as follows:

	2012 RMB'000	2011 RMB'000
Within one year	**4,781**	3,319
In the second to fifth year inclusive	**4,992**	6,393
	9,773	9,712

Operating lease payments represent rentals payable by the Group for leasehold land and office premises. The leasehold land is negotiated for a fixed term of 10 years. The leases of the office premises are negotiated annually. Rentals are fixed over the lease terms.

42. RETIREMENT BENEFIT PLANS

The employees of the PRC subsidiaries are members of a state-managed retirement pension scheme operated by the local government. The PRC subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement pension scheme to fund the benefits. The only obligation of the Group with respect to the retirement pension scheme is to make the specified contributions. 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. The Group contributes a certain percentage of the relevant payroll costs to the scheme, which contribution is matched by the employees. The costs charged to profit or loss during the year were RMB118,375,000 (2011: RMB99,245,000). All the contributions had been paid over to these schemes as at the end of the reporting period.

43. NON-CASH TRANCTIONS

During the year ended 31 December 2012, there was no significant non-cash transactions.

During the year ended 31 December 2011, the Group entered into the following non-cash investing activity which was not reflected in the consolidated statement of cash flows:

As detailed in note 34, upon the maturity of the November 2009 Equity Swap, on 16 May 2011, being the first business day after the maturity date, the Company elected to exercise the Share Delivery Option and the Equity Swap Counterparty delivered to the Company the 12,612,707 shares of the Company and the Equity Swap Counterparty's obligation to repay the Reduced Deposit (i.e. HKD172 million or approximately RMB144 million) to the Company was extinguished.

44. RELATED PARTY DISCLOSURES

During the year, other than those disclosed in notes 13, 20, 21, 27, 28 and 39, the Group had the following significant transactions with related parties:

(I) Related party transactions

During the year, the Group entered into the following transactions with related parties:

Name of company	Relationship	Nature of transactions	2012 RMB'000	2011 RMB'000
Nanjing Longwin	Associate	Purchase of goods	**48,127**	68,438
		Disposal of property, plant and equipment	**—**	985
Nanjing E-crystal	Associate	Purchase of property, plant and equipment	**53,163**	—
		Purchase of goods	**15,124**	—
		Utility charge income	**2,535**	—
		Rental income	**—**	860
		Disposal of property, plant and equipment	**—**	492
Jiangsu Hongsheng	Jointly controlled entity	Purchase of goods	**17,185**	24,026
		Sales of goods	**503**	89,502
Nanjing Construction	Jointly controlled entity	Sales of goods	**98,190**	84,517
		Purchase of goods	**581**	259
		Rental income	**415**	384
Shandong Heavy Duty	Jointly controlled entity	Sales of goods	**17,261**	6,797
Nanjing Yuhuatai District Saihong Bridge Office 南京雨花台賽虹橋街道辦事處	Holding company of a non controlling shareholder of a subsidiary	Rental expenses	**894**	1,476

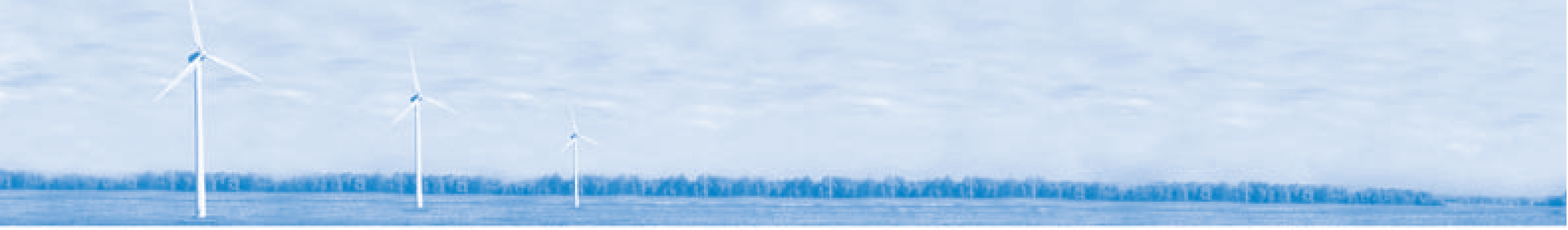
44. RELATED PARTY DISCLOSURES *(Continued)*

(II) Compensation of key management personnel

Other than the emolument paid to the directors of the Company, who are also considered as the key management of the Group as set out in note 13, the Group did not have any other significant compensation to key management personnel.

45. FINANCIAL INFORMATION OF THE COMPANY

	2012 RMB'000	2011 RMB'000
Assets		
Investments in subsidiaries and amounts due from subsidiaries	4,856,442	4,352,316
Fixture and equipment	45	107
Available-for-sale investments	195,292	254,879
Other receivables	9,197	13,844
Bank balances and cash	15,528	9,420
	5,076,504	4,630,566
Liabilities		
Other payables	7,610	10,767
Amounts due to subsidiaries	1,260	1,721
Borrowings	716,288	955,200
Derivative financial instruments	6,496	—
	731,654	967,688
	4,344,850	3,662,878
Capital and reserves		
Share capital	102,543	102,543
Reserves	4,242,307	3,560,335
	4,344,850	3,662,878



45. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

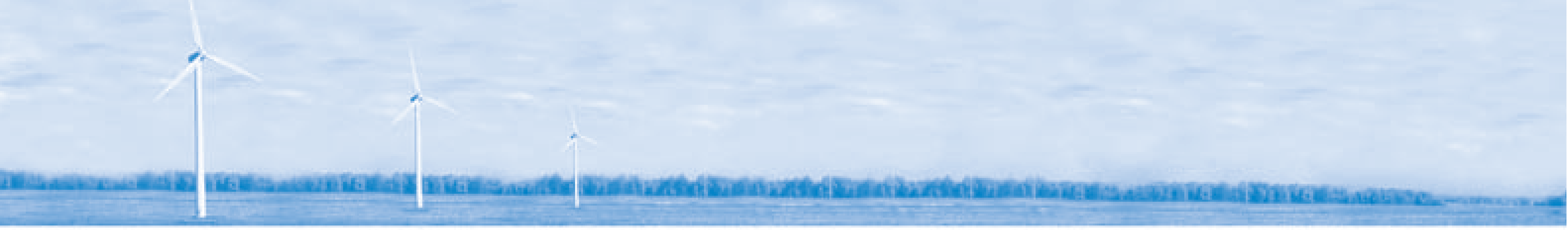
Movement in reserves

	Distributable reserves RMB'000	Deemed capital contribution reserve RMB'000	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Hedging reserve RMB'000	Total RMB'000
At 1 January 2011	3,757,788	77,651	—	30,030	—	3,865,469
Profit for the year	180,658	—	—	—	—	180,658
Dividends recognised as Distribution (note14)	(374,918)	—	—	—	—	(374,918)
Exercise of share options	2,029	—	—	(714)	—	1,315
On maturity of the November 2009 Equity Swap (note 34)	(112,189)	—	—	—	—	(112,189)
At 31 December 2011	3,453,368	77,651	—	29,316	—	3,560,335
Profit for the year	748,055	—	—	—	—	748,055
Other comprehensive expense for the year	—	—	(59,587)	—	(6,496)	(66,083)
Total comprehensive income (expense) for the year	748,055	—	(59,587)	—	(6,496)	681,972
At 31 December 2012	4,201,423	77,651	(59,587)	29,316	(6,496)	4,242,307

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2012 and 2011 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest held by the Company				Principal activities
			Direct		Indirect		
			2012 %	2011 %	2012 %	2011 %	
Goodgain Group Limited	British Virgin Islands ("BVI") 22 March 2005	USD100	100	100	—	—	Investment holding
Eagle Nice Holdings Limited	BVI 22 March 2005	USD100	100	100	—	—	Investment holding
Nanjing High Accurate [3] 南京高精齒輪集團有限公司	PRC 16 August 2001	RMB653,500,000	—	—	100	100	Manufacture and sales of gear, gear box and fittings
Nanjing High Speed Gear Manufacturing Co., Ltd. [2] 南京高速齒輪製造有限公司	PRC 8 July 2003	RMB2,000,000,000	—	—	100	100	Manufacture and sales of gear, gear box and fittings
Nanjing Ningkai Mechanical Co., Ltd. [2] 南京寧凱機械有限公司	PRC 19 November 2002	RMB41,077,000	—	—	85.83	85.83	Engineering processing and manufacturing
Nanjing Gaote Gear Box Manufacturing Co., Ltd. [3] 南京高特齒輪箱製造有限公司	PRC 26 November 2003	USD42,393,264	—	—	100	100	Manufacture and sales of gear, gear box and fittings
Nanjing Dongalloy Machinery & Electronic Co., Ltd. [2] 南京寧嘉機電有限公司	PRC 26 September 1994	RMB36,000,000	—	—	100	100	Manufacture and sales of gear and fittings
Nanjing Yongte Gear Box Manufacturing Co., Ltd. [2][5] 南京永特齒輪箱製造有限公司	PRC 30 July 1990	RMB70,000,000	—	—	—	100	Inactive
Nanjing Ningtai Property Management Co., Ltd. [2] 南京寧泰物業管理有限公司	PRC 25 August 2003	RMB300,000	—	—	100	100	Property management
Nanjing High Accurate Marine Equipment Co., Ltd. [2] 南京高精船用設備有限公司	PRC 2 February 2007	RMB96,000,000	—	—	100	100	Manufacture and sales of gear, gear box and fittings

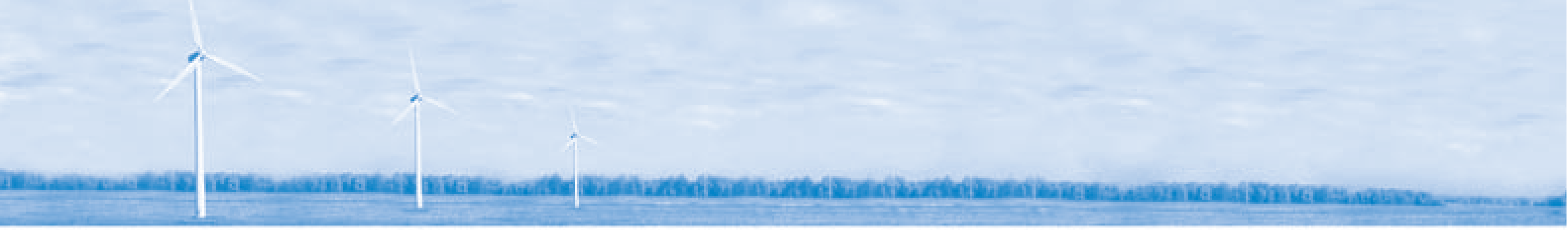


46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest held by the Company				Principal activities
			Direct		Indirect		
			2012 %	2011 %	2012 %	2011 %	
Nanjing High Accurate Heavy Duty Gear Manufacturing Co., Ltd. (2) 南京高精重載齒輪製造有限公司	PRC 30 April 2008	RMB40,300,000	—	—	100	100	Manufacture and sales of shipping drive equipment
Nanjing Ninghongjian Mechanical Co., Ltd. (2) 南京寧宏建機械有限公司	PRC 15 March 2007	RMB20,000,000	—	—	100	100	Engineering processing and manufacturing
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. (1) 南京高精傳動設備製造集團有限公司	PRC 27 March 2007	USD418,300,000	—	—	100	100	Manufacture and sales of gear box and fittings
Nanjing Zhong-Chuan Shipping Drive Equipment Co., Ltd. (3) 南京中傳船舶設備有限公司	PRC 10 June 2008	USD 45,600,000	—	—	100	100	Manufacture and sales of shipping drive equipment
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. (2) 北京中傳首高冶金成套設備有限公司	PRC 25 April 2008	RMB30,000,000	—	—	51	51	Metallurgical engineering and manufacturing
Nanjing Gaochuan Electrical & Mechanical Auto Control Equipment Co., Ltd. (3) 南京高傳機電自動控制設備有限公司	PRC 22 October 2009	RMB464,830,000	—	—	100	100	Manufacture and sales of gear box and fittings
Nanjing Nanchuan Laser Equipment Co., Ltd. (2) 南京南傳激光設備有限公司	PRC 9 October 2010	RMB30,000,000	—	—	77	77	Manufacture and sales of laser equipment
Nanjing High Accurate Marine Propulsion Co., Ltd. (2) 南京高精船舶傳動系統有限公司	PRC 5 July 2006	RMB30,000,000	—	—	100	100	Manufacture and sales of gear transmission equipment

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest held by the Company				Principal activities
			Direct		Indirect		
			2012 %	2011 %	2012 %	2011 %	
Nantong Diesel Engine Co., Ltd. (2) 南通柴油機股份有限公司	PRC 27 November 1993	RMB300,000,000	—	—	89.36	85.19	Manufacture and sales of diesel engines
Nanjing Sky Electronic Enterprise Co., Ltd. (2) 南京四開電子企業有限公司	PRC 27 February 1993	RMB5,780,680	—	—	82.23	82.23	Engineering processing and manufacturing
Zhenjiang Tongzhou Propeller Co., Ltd (2) 鎮江同舟螺旋槳有限公司	PRC 24 November 2005	RMB50,000,000	—	—	76.33	76.33	Manufacture and sales of propellers
Zhong-Chuan Heavy Duty Machine Tool Corporation Ltd. (3) 中傳重型機床有限公司	PRC 11 October 2010	USD39,780,000	—	—	90	90	Manufacture and sales of heavy duty machine tools
Zhong-Chuan Heavy Duty Machine Tool (Nanjing) Corporation Ltd. (2) (6) 中傳重型機床南京有限公司	PRC 26 October 2011	RMB200,000,000	—	—	100	100	Manufacture and sales of machine tools
Zhong-Chuan Heavy Duty Equipment Co., Ltd. (2) (6) 中傳重型裝備有限公司	PRC 28 February 2011	RMB250,000,000	—	—	68	60	Manufacture and sales of heavy duty equipment
Nanjing Jiuyi Heavy Duty Gear Box Manufacturing Co., Ltd. (2) (6) 南京九一重型齒輪製造有限公司	PRC 27 July 2011	RMB150,000,000	—	—	100	100	Manufacture and sales of gear
Shenyang Ming Shenghang Enterprise Management Consultancy Co., Ltd. (2) 瀋陽明聖航企業管理諮詢有限公司	PRC 15 April 2011	RMB500,000	—	—	100	100	Provision of consulting service
Nanjing High Accurate Drive Equipment Manufacture Group Electromechanical Development Co., Ltd. (2) 南京高精傳動設備製造集團機電發展有限公司	PRC 20 July 2011	RMB20,000,000	—	—	100	100	Provision of after sale services



46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest held by the Company				Principal activities
			Direct		Indirect		
			2012 %	2011 %	2012 %	2011 %	
AE&E Nanjing Boiler Co., Ltd.(3) 南京奧能鍋爐有限公司	PRC 25 January 1991	RMB128,824,800	—	—	90	90	Manufacture and sales of industrial boilers, heat recovery equipment and related products
Nanjing E-lite Semiconductors Co., Ltd. (2) 南京晶瑞半導體有限公司	PRC 2 November 2011	RMB142,200,000	—	—	60.97	60.02	Manufacture and sales of LED chips and related products
Jiangsu E-lite Semiconductors Co., Ltd. (2) 江蘇晶瑞半導體有限公司	PRC 3 September 2010	RMB120,000,000	—	—	60.97	63	Manufacture and sales of LED chips and related products
Anhui High Drive New Energy Developments Co., Ltd. (2) 安徽高傳新能源開發有限公司	PRC 28 December 2011	RMB3,000,0000	—	—	100	100	Investment of wind power generation
Jaingsu New Best Zhong-Chuan Technology Co., Ltd. (2)(6) 江蘇新貝斯特中傳科技有限公司	PRC 27 December 2011	RMB200,000,000	—	—	63	63	Manufacture and sales of machine tools
Nanjing Jingjing Photoelectric Science & Technology Co. Ltd (2)(4) 南京京晶光電科技有限公司	PRC 15 March 2012	RMB200,000,000	—	—	100	—	Manufacture and sales of LED products
Nanjing Handa Import and Export Trading Co., Ltd. (2)(4)(7) 南京翰達進出口貿易有限公司	PRC 25 April 2012	RMB100,000,000	—	—	41	—	Trading business
Yuexi High Drive Wind Power Co,Ltd (2)(4) 岳西縣高傳風力發電有限公司	PRC 13 November 2012	RMB1,000,000	—	—	100	—	Operation of wind power plant
China Transmission Holdings Limited 中傳控股有限公司	Hong Kong 7 November 2007	HKD100	—	—	100	100	Investment holding
Century Well Holdings Limited 英威集團有限公司	Hong Kong 9 January 2008	HKD100	—	—	100	100	Inactive

46. PARTICULARS OF SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest held by the Company				Principal activities
			Direct		Indirect		
			2012 %	2011 %	2012 %	2011 %	
NGC Transmission Equipment (America) Inc.	USA 7 August 2008	USD1,500,000	—	—	100	100	Sales of gear and fittings
NGC Renewable, LLC (6)	USA 29 July 2011	USD24,000,000	—	—	100	100	Inactive
NGC Marine Propulsion Southeast Asia Pte. Ltd.	Singapore 15 March 2011	USD400,000	—	—	51	51	Sales of gear and fittings
Global Power Asia Limited	Hong Kong 8 June 2004	HKD84,645,632	—	—	100	100	Investment holding

Note:

(1) Wholly-foreign owned enterprise established in the PRC

(2) Domestic enterprise established in the PRC

(3) Sino-foreign owned enterprise established in the PRC

(4) These subsidiaries were established/incorporated during the year

(5) The subsidiary was deregistered during the year.

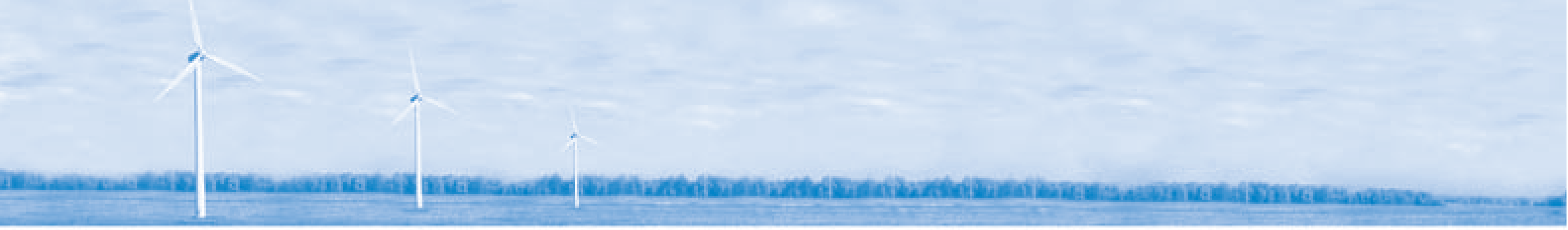
(6) As at 31 December 2012, the registered capital of Zhong-Chuan Heavy Duty Machine Tool (Nanjing) Corporation Ltd., Zhong-Chuan Heavy Duty Equipment Co., Ltd., Nanjing Jiuyi Heavy Duty Gear Box Manufacturing Co., Ltd., Jaingsu New Best Zhong-Chuan Technology Co., Ltd. and NGC Renewable, LLC is paid up to RMB40,000,000 (2011: RMB40,000,000), RMB219,080,000 (2011: RMB89,080,000), RMB30,000,000 (2011: RMB30,000,000), RMB141,500,000 (2011: RMB40,000,000) and nil (2011: nil) respectively. The registered capital of all other subsidiaries established is fully paid up as at 31 December 2012.

(7) The Group has control over Nanjing Handa Import and Export Trading Co., Ltd. because it controls 75% of the voting power in board meeting.

Except for Nanjing High Speed Gear Manufacturing Co., Ltd. has issued unlisted and unsecured short-term commercial paper, none of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

47. EVENTS AFTER THE END OF THE REPORTING PERIOD

In February 2013, Nanjing High Speed Gear Manufacturing Co., Ltd, a wholly-owned subsidiary of the Group, issued an unlisted and unsecured short-term commercial paper of RMB700,000,000, which carries an interest rate of 5.3% per annum and shall be repayable in February 2014.



FINANCIAL SUMMARY

	Year ended 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Revenue	3,439,220	5,647,045	7,392,649	7,120,712	**6,368,817**
Profit for the year	692,652	965,778	1,393,458	547,588	**128,472**

	As at 31 December				
	2008	2009	2010	2011	**2012**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	8,477,856	10,234,919	14,931,515	18,400,984	**19,882,234**
Total liabilities	(4,743,211)	(5,784,567)	(7,417,174)	(10,778,949)	**(12,137,671)**
	3,734,645	4,450,352	7,514,341	7,622,035	**7,744,563**
Attributable to:					
Equity owners of the Company	3,731,086	4,420,937	7,392,730	7,472,581	**7,539,438**
Non-controlling interests	3,559	29,415	121,611	149,454	**205,125**
	3,734,645	4,450,352	7,514,341	7,622,035	**7,744,563**