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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

PERFORMANCE HIGHLIGHTS

Revenue for 2011 was approximately RMB7,120,712,000, representing a decrease of 3.7% as compared with last year.

Profit attributable to owners of the Company as shown in the accounts for the year 2011 was approximately RMB556,974,000, representing a decrease of 59.7% as compared with last year.

Excluding the changes in fair values of convertible bonds and equity swap, adjusted profit attributable to owners of the Company for 2011 was approximately RMB645,208,000, representing a decrease of 49.3% as compared with last year.

Basic and diluted earnings per share amounted to RMB0.407 and RMB0.406 respectively.

The Board did not recommend payment of a final dividend for the year ended 31 December 2011.

The board of directors (the "Board") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 together with comparative figures as follows. The consolidated annual results have been reviewed by the Company's audit committee.

* *For identification purpose only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	**2011** *RMB'000*	**2010** *RMB'000*
Revenue	3	7,120,712	7,392,649
Cost of sales		(5,301,916)	(5,180,005)
Gross profit		1,818,796	2,212,644
Other income	4	231,613	200,185
Other gains and losses	5	(70,078)	111,317
Distribution and selling costs		(254,278)	(200,952)
Administrative expenses		(527,057)	(460,049)
Research and development costs		(83,084)	(50,476)
Other expenses		(123,231)	(57,300)
Finance costs	6	(323,399)	(146,842)
Share of results of associates		1,172	479
Share of results of jointly controlled entities		24,622	40,995
Profit before taxation		695,076	1,650,001
Taxation	7	(147,488)	(256,543)
Profit for the year	8	547,588	1,393,458
Other comprehensive expense for the year			
Exchange difference arising on translation		(291)	(355)
Total comprehensive income for the year		547,297	1,393,103
Profit (loss) for the year attributable to:			
Owners of the Company		556,974	1,383,635
Non-controlling interests		(9,386)	9,823
		547,588	1,393,458
Total comprehensive income (expense) attributable to:			
Owners of the Company		556,683	1,383,280
Non-controlling interests		(9,386)	9,823
		547,297	1,393,103
Earnings per share	10		
Basic (RMB)		0.407	1.080
Diluted (RMB)		0.406	0.905

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	**2011** *RMB'000*	**2010** *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		5,588,890	4,869,764
Prepaid lease payments		609,362	399,304
Goodwill		17,715	17,715
Intangible assets		271,303	196,570
Interests in associates		186,066	56,744
Interests in jointly controlled entities		652,284	624,162
Available-for-sale investments	11	362,945	148,646
Deposit for land lease		400,000	380,458
Prepayment for acquisition of property, plant and equipment		31,373	59,265
Deferred tax assets		27,933	36,730
		8,147,871	6,789,358
CURRENT ASSETS			
Inventories		1,799,018	1,257,663
Prepaid lease payments		13,321	8,554
Trade and other receivables	12	4,937,637	3,810,804
Amounts due from associates		30,431	—
Amount due from a jointly controlled entity		26,744	9,339
Pledged bank deposits		1,252,922	766,839
Derivative financial instrument	16	—	18,392
Restricted cash	16	—	146,798
Tax asset		18,448	—
Bank balances and cash		2,174,592	2,123,768
		10,253,113	8,142,157
CURRENT LIABILITIES			
Trade and other payables	13	2,825,862	2,554,238
Amount due to a related party		—	1,435
Amounts due to associates		397	1,312
Amount due to a jointly controlled entity		11,686	6,665
Tax liabilities		87,361	175,259
Borrowings - due within one year	14	4,991,382	1,208,651
Warranty provision		81,261	58,393
Financial liabilities designated as at fair value through profit or loss - convertible bonds	15	—	1,219,933
		7,997,949	5,225,886
NET CURRENT ASSETS		2,255,164	2,916,271
TOTAL ASSETS LESS CURRENT LIABILITIES		10,403,035	9,705,629

	NOTES	2011	2010
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Borrowings - due after one year	14	2,627,075	2,043,050
Deferred tax liabilities		63,066	86,166
Deferred income		90,859	62,072
		2,781,000	2,191,288
		7,622,035	7,514,341
CAPITAL AND RESERVES			
Share capital	17	102,543	103,345
Reserves		7,370,038	7,289,385
Equity attributable to owners of the Company		7,472,581	7,392,730
Non-controlling interests		149,454	121,611
		7,622,035	7,514,341

NOTES

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

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

In the current year, the Group has applied a number of new and revised Standards and Interpretations issued by the International Accounting Standards Board (the "IASB") and the IFRS Interpretations Committee of the IASB, which are or have become effective.

The application of the new and revised IFRSs in the current year has 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.

New and revised IFRSs issued but not yet effective

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

IFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets[1]
IFRS 7 (Amendments)	Disclosures — Offsetting Financial Assets and Financial Liabilities[2]
IFRS 9	Financial Instruments[3]
IFRS 9 and IFRS 7 (Amendments)	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
IFRS 10	Consolidated Financial Statements[2]
IFRS 11	Joint Arrangements[2]
IFRS 12	Disclosure of Interests in Other Entities[2]
IFRS 13	Fair Value Measurement[2]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[5]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[4]
IAS 19 (Revised 2011)	Employee Benefits[2]
IAS 27 (Revised 2011)	Separate Financial Statements[2]
IAS 28 (Revised 2011)	Investments in Associates and Joint Ventures[2]
IAS 32 (Amendments)	Offsetting Financial Assets and Financial Liabilities[6]
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012
[6] Effective for annual periods beginning on or after 1 January 2014

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:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be 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 relation to financial liabilities, the most significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, 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 attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at 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 of the Company anticipate that IFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2015 and 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.

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). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013.

IFRS 10 Consolidated Financial Statements

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 has been withdrawn upon the issuance 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 Joint Arrangements

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 has been withdrawn upon the issuance 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 accounting.

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates or unconsolidated structured entities. IFRS 12 establishes disclosure objectives and specifies minimum disclosures that entities must provide to meet those objectives. The objective of IFRS 12 is that entities should disclose information that helps users of financial statements evaluate the nature of and risks associated with its interests in other entities and the effects of those interests on financial statements. The disclosure requirements set out in IFRS 12 are more extensive than those in the current standards.

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.

The directors of the Company anticipate that IFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard will not affect the amounts reported in the consolidated financial statements or result in more extensive disclosures in the consolidated financial statements.

Except for IFRS 9, IFRS 10, IFRS 11, IFRS 12 and IFRS 13, the directors of the Company anticipate that the application of the other new and revised IFRSs will have no material impact on the measurement and presentation in the consolidate financial statements.

3. 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 aging 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.

The People's Republic of China (the "PRC"), the United States of America (the "USA") and Europe (mainly Italy) are three major operating segments reviewed by the CODM while the remaining market locations are grouped together to report to CODM for analysis in this year. The USA segment is added in this year as it becomes significant to the Group and the Group plans to develop the USA market. The comparative segment information for the year ended 31 December 2010 has been reclassified to display those segment information of the USA in order to conform with the current year segment presentation.

Segment revenue and results

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

	2011	2010
	RMB'000	*RMB'000*
Segment revenue		
- PRC	5,996,537	6,526,235
- USA	1,005,332	535,385
- Europe	83,448	231,242
- Others	35,395	99,787
	7,120,712	7,392,649
Segment profit		
- PRC	1,466,411	1,894,730
- USA	245,847	155,367
- Europe	20,407	66,882
- Others	8,655	28,342
	1,741,320	2,145,321
Other income, gains and losses	(15,268)	177,873
Finance costs	(323,399)	(146,842)
Share of results of associates	1,172	479
Share of results of jointly controlled entities	24,622	40,995
Unallocated expenses	(733,371)	(567,825)
Profit before taxation	695,076	1,650,001

The accounting policies of the reportable segments are the same as the Group's accounting policies. 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.

Segment assets

	2011	2010
	RMB'000	*RMB'000*
Segment assets		
- PRC	4,206,196	3,364,349
- USA	308,140	98,306
- Europe	14,813	32,171
- Others	1,037	9,716
Total segment assets	4,530,186	3,504,542
Unallocated assets	13,870,798	11,426,973
Consolidated total assets	18,400,984	14,931,515

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

2011

	PRC	**USA**	**Europe**	**Others**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*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	—	453,743
Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:						
Depreciation of all property, plant and equipment	382,110	64,061	5,317	2,255	25,474	479,217
Impairment loss on trade receivables	90,126	23,157	—	—	—	113,283
Impairment loss on intangible assets	9,948	—	—	—	—	9,948

2010

	PRC	USA	Europe	Others	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Amounts included in the measure of segment profit:						
Allowance for inventories	8,447	693	299	129	—	9,568
Depreciation of production plants	256,565	21,051	9,092	3,923	—	290,631
Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:						
Depreciation of all property, plant and equipment	256,565	21,051	9,092	3,923	38,545	329,176
Impairment loss on trade receivables	8,468	7,321	7,065	—	—	22,854
Impairment loss on intangible assets	3,213	—	—	—	—	3,213

Revenue from major product and services

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

	2011	2010
	RMB'000	*RMB'000*
High-speed heavy-load gear transmission equipment	23,282	24,798
Gear transmission equipment for construction materials	700,863	668,452
General purpose gear transmission equipment	135,188	144,740
Gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills	400,144	550,743
Wind gear transmission equipment	4,769,523	5,457,532
Marine gear transmission equipment	253,571	234,253
Transmission equipment for high-speed locomotives and urban light rails	51,046	36,310
Computer numerical controlled products	61,450	46,081
Diesel engine products	259,317	18,511
Others	466,328	211,229
	7,120,712	7,392,649

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

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	
	2011	2010
	RMB'000	*RMB'000*
PRC	7,754,279	6,603,553
USA	399	256
Others	2,315	173
	7,756,993	6,603,982

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:

	2011	2010
	RMB'000	*RMB'000*
Customer A[1]	1,005,332	N/A[3]
Customer B[2]	925,222	1,257,611
Customer C[2]	795,529	746,473

[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.

4. OTHER INCOME

	2011	2010
	RMB'000	*RMB'000*
Sales of scraps and materials	147,097	101,880
Bank interest income	45,469	31,093
Government grants (Note)	29,706	51,749
Gain on disposal of property, plant and equipment	1,588	2,338
Others	7,753	13,125
	231,613	200,185

Note: The amounts mainly represent subsidies or incentives received from PRC local governments for the operations carried out by the Group. The amount also includes release of deferred income of RMB4,003,000 (2010: RMB3,828,000).

5. OTHER GAINS AND LOSSES

	2011	2010
	RMB'000	*RMB'000*
Loss on derivative financial instrument	(53,988)	(37,599)
(Loss) gain on fair value changes on convertible bonds	(34,246)	148,916
Net exchange gains	18,156	—
	(70,078)	111,317

6. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Interests on bank borrowings wholly repayable within five years	389,105	194,772
Less: amount capitalised	(65,706)	(47,930)
	323,399	146,842

7. TAXATION

	2011	2010
	RMB'000	*RMB'000*
Current tax		
- PRC Enterprise Income Tax	159,155	225,035
- USA Corporate Income Tax	809	—
	159,964	225,035
Under provision in prior years		
- PRC Enterprise Income Tax	853	3,728
- USA Corporate Income Tax	974	—
	1,827	3,728
Deferred tax (credit) charge	(14,303)	27,780
	147,488	256,543

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong.

No provision for Singapore income tax has been made as the Group has no assessable profit arising in Singapore.

Provision of the USA Federal and State Corporate Income Tax rates are made at the rates of 34% and 8.84% respectively for NGC Transmission Equipment (America) Inc..

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% from 1 January 2008 onwards.

Pursuant to relevant laws and regulation in the PRC, Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate") and Nanjing Gaote Gear Box Manufacturing Co., Ltd. ("Nanjing Gaote") are exempted from PRC income tax for two years commencing from their first profit-making year, follow by a 50% reduction for the next three years. These tax concessions expired on 31 December 2010.

Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine"), Nanjing High Accurate, Nanjing Gaote, Nanjing Sky Electronic Enterprise Co., Ltd ("Sky Electronic"), CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd ("Shougao") and Zhenjiang Tongzhou Propeller Co., Ltd. ("Tongzhou") are approved for 3 years as enterprises that satisfied the conditions as high technology development enterprises and are thus subject to a preferential tax rate of 15% for the 3 years from date of approval. The approval was obtained in the year ended 31 December 2008 for Nanjing High Speed, Nanjing Marine and Nanjing High Accurate, 31 December 2009 for Nanjing Gaote, Sky Electronic and Shougao and 31 December 2011 for Tongzhou. The approval for Nanjing High Speed, Nanjing Marine and Nanjing High Accurate were renewed and extended for another 3 years in the year ended 31 December 2011. Accordingly, the tax rate for these 7 companies during the years ended 31 December 2011 and 2010 was 15% except that it was 11%, 12.5% and 25% for Nanjing High Accurate, Nanjing Gaote and Tongzhou in 2010 respectively.

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 2011, deferred tax liabilities of RMB60,895,000 (2010: RMB48,895,000) has been recognised in the consolidated financial statements in respect of the temporary differences attributable to such undistributed profits.

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

	2011	2010
	RMB'000	*RMB'000*
Profit before taxation	695,076	1,650,001
Tax at income tax rate of 25% (2010: 25%)	173,769	412,500
Income taxed at concessionary rate and tax exemption	(84,953)	(164,418)
Tax effect of share of results of associates and jointly controlled entities	(6,449)	(10,369)
Tax effect of expenses not deductible for tax purposes	38,645	37,569
Tax effect of income not taxable for tax purposes	(1,990)	(42,324)
Tax effect of tax losses not recognised	25,158	1,011
Utilisation of tax losses and deductible temporary differences previously not recognised	(10,856)	(154)
Underprovision in prior year	1,827	3,728
Undistributed earnings of the PRC subsidiaries	12,000	19,000
Effect of different tax rate of a group entity operating in a jurisdiction other than PRC	337	—
Tax charge for the year	147,488	256,543

8. PROFIT FOR THE YEAR

	2011	2010
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors' emoluments	866,837	532,600
Less: staff cost included in research and development costs	(26,342)	(17,629)
	840,495	514,971
Allowance for inventories (included in cost of inventories below)	38,220	9,568
Amortisation of intangible assets	75,542	40,230
Cost of inventories recognised as an expense	5,299,681	5,166,903
Depreciation of property, plant and equipment	479,217	329,176
Exchange gains	(209,622)	(117,210)
Exchange losses	191,466	148,267
Gain on disposal of property, plant and equipment	(1,588)	(2,338)
Impairment loss on intangible assets (included in other expenses)	9,948	3,213
Impairment loss on trade receivables (included in other expenses)	113,283	22,854
Release of prepaid lease payments	10,630	7,036

9. DIVIDENDS

	2011	2010
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
Dividend of HK30 cents (equivalent to approximately RMB26 cents) per ordinary share as the final dividend for 2009	—	327,427
Dividend of HK33 cents (equivalent to approximately RMB28 cents) per ordinary share as the final dividend for 2010	374,918	—
	374,918	327,427

For the year ended 31 December 2011, 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 (2010: interim dividend nil, final dividend HK33 cents, equivalent to RMB28 cents, per ordinary share).

10. 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:

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	556,974	1,383,635
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds	—	(148,916)
Earnings for the purpose of diluted earnings per share	556,974	1,234,719

	2011	2010
	RMB'000	*RMB'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,367,325	1,281,332
Effect of dilutive potential ordinary shares:		
Share option	3,340	7,956
Convertible bonds	—	74,704
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,370,665	1,363,992

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.

11. AVAILABLE-FOR-SALE INVESTMENTS

		2011	2010
		RMB'000	*RMB'000*
Equity securities listed in Hong Kong	(1)	254,879	—
Unlisted equity securities issued by private entities established in the PRC	(2)	108,066	148,646
		362,945	148,646

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, in relation 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 Hong Kong Stock Exchange on 30 December 2011, the Cornerstone Investment Agreement was completed and 144,100,000 H shares of Guodian Tech each priced at HKD2.16 were issued to the Group, which accounted for 12.12% of the total issued H share, and 2.42% of the total issued shares of Guodian Tech at 30 December 2011.

(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.

12. TRADE AND OTHER RECEIVABLES

	2011	**2010**
	RMB'000	*RMB'000*
Accounts receivable (note)	3,086,721	1,953,787
Bills receivable discounted to banks (note 14)	841,377	349,077
Notes receivable	783,643	1,273,633
Less: allowance for doubtful debts	(181,555)	(71,955)
Total trade receivables	4,530,186	3,504,542
Advances to suppliers	295,953	223,301
Value-added tax recoverable	45,990	51,088
Other receivables	65,508	31,873
Total trade and other receivables	4,937,637	3,810,804

Note: At 31 December 2011, included in the accounts receivable is RMB439,187,000 (2010: RMB377,944,000), which represents accounts receivable with letters of credit issued by the customers' banks.

The Group generally allows a credit period of 180 days to its trade customers. The following is an aged analysis of the trade receivables based on invoice date, net of allowance for doubtful debts, at the reporting date:

	2011	2010
	RMB'000	*RMB'000*
0 - 90 days	2,666,835	2,304,890
91 - 120 days	421,471	663,406
121 - 180 days	823,531	290,714
181 - 365 days	548,521	99,450
Over 365 days	69,828	146,082
	4,530,186	3,504,542

The trade receivable balances of RMB3,911,837,000 (2010: RMB3,259,010,000) 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.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB618,349,000 (2010: RMB245,532,000) 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. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2011	2010
	RMB'000	*RMB'000*
181 - 365 days	548,521	99,450
Over 365 days	69,828	146,082
Total	618,349	245,532

Movement in the allowance for doubtful debts

	2011	2010
	RMB'000	*RMB'000*
Balance at beginning of the year	71,955	49,250
Impairment losses recognised on receivables	113,283	22,854
Amounts written off as uncollectible	(3,683)	(149)
Balance at end of the year	181,555	71,955

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB181,555,000 (2010: RMB71,955,000) which have either been placed under liquidation or in financial difficulties. The Group does not hold any collateral over these balances.

During the year, the Group discounted certain bills receivable to banks with recourse. The Group continues to recognise the full carrying amount of the receivables as the Group is still exposed to credit risk to these receivables. At 31 December 2011, the carrying amount of the bills discounted is RMB841,377,000 (2010: RMB349,077,000). The carrying amount of the associated liability arising from discounted bills (see note 14) is RMB841,377,000 (2010: RMB349,077,000).

13. TRADE AND OTHER PAYABLES

	2011	**2010**
	RMB'000	*RMB'000*
Accounts payable	1,173,395	960,245
Notes payable (note)	569,359	750,361
Total trade payables	1,742,754	1,710,606
Advances from customers	536,626	399,700
Purchase of property, plant and equipment	253,052	276,585
Payroll and welfare payables	175,539	81,388
Accrued expenses	48,184	9,570
Value-added tax payable	17,144	62,449
Deferred income	6,104	4,003
Other payables	46,459	9,937
	2,825,862	2,554,238

Note: Notes payable are secured by the Group's bank deposits.

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

	2011	**2010**
	RMB'000	*RMB'000*
0 - 30 days	625,363	645,049
31- 60 days	327,969	308,554
61 - 180 days	707,914	721,167
181 - 365 days	40,981	21,032
Over 365 days	40,527	14,804
	1,742,754	1,710,606

The credit period on purchases of goods is 30 days to 120 days.

14. BORROWINGS

	2011	2010
	RMB'000	*RMB'000*
Bank loans	6,777,080	2,902,624
Bills discounted with recourse (note 12)	841,377	349,077
	7,618,457	3,251,701
Secured	1,581,255	361,651
Unsecured	6,037,202	2,890,050
	7,618,457	3,251,701
Carrying amount repayable*:		
Within one year	4,991,382	1,208,651
More than one year, but not exceeding two years	1,115,600	258,000
More than two years but not more than five years	1,511,475	1,785,050
	7,618,457	3,251,701
Less: Amounts due within one year shown under current liabilities	(4,991,382)	(1,208,651)
Amounts due over one year	2,627,075	2,043,050

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

The Group's borrowings include RMB2,897,802,000 (2010: RMB865,624,000) fixed-rate borrowings and RMB 4,720,655,000 (2010: RMB2,386,077,000) variable-rate borrowings which carry interest rates based on the rate of People's Bank of China prescribed interest rate, the Hong Kong Interbank Offered Rate (the "HIBOR") and the London Interbank Offered Rate (the "LIBOR").

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

	2011	2010
	RMB'000	*RMB'000*
Fixed-rate borrowings:		
Within one year	2,897,802	859,574
In more than one year but not more than two years	—	6,050
	2,897,802	865,624

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

	2011	2010
	%	%
Fixed-rate borrowings	4.00 - 8.30	3.51 - 7.97
Variable-rate borrowings	4.76 - 8.53	3.54 - 5.76

As at 31 December 2011, the Group's borrowings that are denominated in currencies other than RMB (the functional currency of relevant group entities) are USD94,709,000, EUR 6,059,000, and HKD1,050,000,000, which are equivalent to RMB596,753,000, RMB49,457,000 and RMB851,235,000 respectively (2010: USD1,133,000, EUR nil and HKD nil, which are equivalent to RMB7,659,000, RMB nil and RMB nil). 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 19.

15. 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 are 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 will 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 will 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 can settle in cash in lieu of delivery of the relevant shares by paying cash to the bondholders, the 2008 Convertible Bonds are 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.

The movement of the 2008 Convertible Bonds for 2010 and 2011 is set out below:

	RMB'000
As at 1 January 2010	1,368,949
Conversion of convertible bonds	(100)
Gain on fair value changes on convertible bonds	(148,916)
As at 31 December 2010	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	—

In June 2010, 6,566 ordinary shares of USD0.01 each of the Company were issued upon conversion of portion of the 2008 Convertible Bonds with an aggregate principal amount of RMB100,000 (equivalent to HKD111,508) at the conversion price of HKD16.9817. At 31 December 2010, the principal amount payable at maturity was RMB1,147,000,000.

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 during the current year.

At 31 December 2010, the fair value of the 2008 Convertible Bonds containing the debt component and the embedded derivatives component is measured using effective interest method and Binomial Option Pricing Model respectively. The valuation of the fair values was carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers.

The inputs into the Binomial Option Pricing Model at 31 December 2010 were as follows:

	31 December 2010
Share price	HKD12.04
Exercise price	HKD16.9817
Risk-free rate of interest	0.29%
Dividend yield	2.49%
Time to expiration	0.37 years
Volatility	29.05%
Borrowing rate of issuer	7.88%

16. DERIVATIVE FINANCIAL INSTRUMENT/RESTRICTED CASH

Concurrent with the issuance of the 2008 Convertible Bonds as disclosed in note 15, 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 is 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 is refundable to the Group at Maturity (defined below), and is 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.

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 (2010: RMB37,599,000) in respect of the maturity of the November 2009 Equity Swap was recognised in the profit or loss in the current year, 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.

The movement of the derivative financial instrument for 2010 and 2011 is set out below:

	RMB'000
Derivative financial asset at 1 January 2010	55,991
Loss for the year recognised in profit or loss	(37,599)
Derivative financial asset at 31 December 2010	18,392
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 2011	—

At 31 December 2010, the fair value of the derivative financial instrument outstanding was measured using Black-Scholes Option Pricing Model. The valuation of the fair value was carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers.

The inputs into the Black-Scholes Option Pricing Model at the respective valuation dates were as follows:

	31 December 2010
Initial price	HKD13.68
Share price	HKD12.04
Risk-free rate of interest	0.29%
Dividend yield	2.49%
Time to expiration	0.37 years
Volatility	29.05%

17. SHARE CAPITAL

	Number of shares *(in thousand)*	Amount *USD'000*	Equivalent to *RMB'000*
Ordinary shares of USD0.01 each			
Authorised:			
At 1 January 2010, 31 December 2010 and 31 December 2011	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2010	1,245,064	12,450	94,633
Conversion of convertible bonds (Note (a))	7	—	1
Issue of shares on placement of shares (Note (b))	130,000	1,300	8,711
At 31 December 2010	1,375,071	13,750	103,345
Exercise of share options (Note (c))	285	3	19
On maturity of the November 2009 Equity Swap (Note (d))	(12,613)	(126)	(821)
At 31 December 2011	1,362,743	13,627	102,543

Notes:

(a) During the year ended 31 December 2010, 6,566 ordinary shares of the Company of USD0.01 each were issued upon conversion of 2008 Convertible Bonds with an aggregate principal amount of RMB100,000 (equivalent to HKD111,508) at the conversion price of HKD16.9817 in June 2010.

(b) On 21 September 2010, 130,000,000 new ordinary shares of USD0.01 each were issued at HKD17.38 per share pursuant to a placing agreement dated 10 September 2010 entered into between the Company and a placing agent and a subscription agreement dated 10 September 2010 between the Company and Fortune Apex Limited. The net proceeds of approximately HKD2,223 million was used as general working capital of the Group.

(c) 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.

(d) As detailed in note 16, 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 2010 and 2011 rank pari passu with the then existing shares in all respects.

18. CAPITAL COMMITMENTS

	2011	2010
	RMB'000	*RMB'000*
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
- land leases	309,400	10,000
- property, plant and equipment	561,004	499,021
	870,404	509,021

19. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to banks to secure notes payable and borrowings utilised by the Group:

	2011	2010
	RMB'000	*RMB'000*
Bank deposits	1,252,922	766,839
Notes receivable	394,384	—
Bills receivable	841,377	—
Property, plant and equipment	81,194	—
Prepaid lease payments	10,327	—
	2,580,204	766,839

20. NON-CASH TRANCTIONS

The Group entered into the following non-cash investing activity which is not reflected in the consolidated cash flows:

As detailed in note 16 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.

21. ACQUISITION OF SUBSIDIARIES

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 Company Limited ("AE&E") 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 are manufacturing of industrial boilers, heat recovery equipment and related products and were acquired with the objective of diversification. Global Power Asia Limited and AE&E 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., Limited ("Jiangsu E-lite") through 南京晶瑞半導體有限公司Nanjing E-lite Semiconductors Co., Limited ("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 chip 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 in the current year, within the "other expenses" line item in the consolidated statement of comprehensive income.

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

Impact of acquisition on the results of the Group

Included in the profit and revenue for the current year is a loss of RMB13,700,000 and revenue of RMB52,605,000, respectively attributable to the additional business generated by the new subsidiaries acquired.

Had the acquisition been completed on 1 January 2011, total group revenue for the year would have been RMB7,127,544,000, and profit for the year would have been RMB530,442,000.

For the year ended 31 December 2010

During the year ended 31 December 2010, the Group acquired certain subsidiaries as below:

(i) On 19 January 2010, the Group acquired 58% equity interest in Sky Electronic (as defined in note 7) at a cash consideration of RMB13,200,000. Sky Electronic is principally engaged in engineering processing and manufacturing and was acquired with the objective of diversification.

(ii) On 30 November 2010, the Group acquired additional 60% issued share capital of a former 40% associate, 南京高精船舶傳動系統有限公司 Nanjing High Accurate Marine Propulsion Co., Ltd. ("Nanjing Marine Propulsion"), at a cash consideration of RMB13,920,000. Nanjing Marine Propulsion is engaged in the manufacture and sales of gear transmission equipment. Nanjing Marine Propulsion was acquired so as to continue the expansion of the Group's gear transmission equipment operations.

(iii) On 2 December 2010, the Group injected RMB142,000,000 in 南通柴油機股份有限公司Nantong Diesel Engine Co., Ltd. ("Nantong Diesel") for 65.88% equity interest in Nantong Diesel. Nantong Diesel is engaged in the manufacture and sales of diesel engine. Nantong Diesel was acquired with the objective of diversification.

The total acquisition-related costs amounting to RMB245,000 have been excluded from the costs of acquisitions and have been recognised as an expense in the year ended 31 December 2010, within the "other expenses" line item in the consolidated statement of comprehensive income.

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

Impact of acquisition on the results of the Group

Included in the profit and revenue for the year ended 31 December 2010 are a loss of RMB5,280,000 and revenue of RMB64,652,000 respectively attributable to the additional business generated by the new subsidiaries acquired.

22. EVENTS AFTER THE END OF THE REPORTING PERIOD

On 23 March 2012, Nanjing High Speed, a wholly-owned subsidiary of the Group, issued short-term commercial paper of RMB800,000,000.

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 2011, the Group recorded total sales revenue of approximately RMB7,120,712,000, representing a decrease of 3.7% from 2010. The gross profit margin recorded was approximately 25.5%. Profit attributable to owners of the Company was approximately RMB556,974,000, representing a significant decrease of 59.7% from 2010. If the effect of the fair value change of convertible bonds and equity swap had been excluded, the adjusted profit attributable to owners of the Company in 2011 would have been approximately RMB645,208,000, representing an decrease of 49.3% from 2010. Basic and diluted earnings per share attributable to the owners of the Company amounted to RMB0.407 and RMB0.406 respectively.

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 Company in recent years. Sales revenue of wind power gear transmission equipment business decreased by approximately 12.6% to approximately RMB4,769,523,000 (2010: RMB5,457,532,000) as compared with last year. The decrease was mainly attributable to (1) the decrease in average selling price of wind power gear box products; (2) the decrease in sales revenue due to the postponement of the delivery of wind gear box products as requested by certain customers.

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 67 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 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, Vestas, REPower, Nordex, Fuji Heavy, etc. With the Group's increasingly globalised operation, ALSTOM Wind and SUZLON have also become the overseas customers of the Group during the Period under Review.

2. **Marine gear transmission equipment**

Actively expand the domestic market

Marine gear transmission equipment is one of the Company'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 17th Kormarine 2011 (第17屆韓國國際船舶海事設備展) 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 increased slightly to approximately RMB253,571,000 (2010: RMB234,253,000), representing an increase of 8.2% 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 two fold 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 RMB51,046,000 for the Group (2010: RMB36,310,000), increased by 40.6% 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 construction materials and other products increased by 4.8% and 120.8% to RMB700,863,000 (2010: RMB668,452,000) and RMB466,328,000 (2010: RMB211,229,000), respectively. Sales of high speed heavy load gear transmission equipment, general purpose gear transmission equipment and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills amounted to RMB23,282,000 (2010: RMB24,798,000), RMB135,188,000 (2010: RMB144,740,000) and RMB400,144,000 (2010: RMB550,743,000), representing decreases of 6.1%, 6.6% and 27.3%, 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 products accordingly. By leveraging its research and development technologies, the Group focused on the development of energy-saving and environmentally-friendly products, such as the transmission equipment used in the construction material industry. 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 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 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 acquired a local manufacturer specialising in the research and development and production of CNC system and CNC machine tools last year. The manufacturer 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 the newly acquired subsidiary and recorded sales of approximately RMB61,450,000 (2010: RMB46,081,000).

6. **Diesel engine product industry**

In order to improve the application of marine transmission equipment, the Group acquired Nantong Diesel Engine Factory in December 2010. The company is located in Nantong, Jiangsu Province, which is a prosperous region of the Yangtze River Delta.

Nantong Diesel Engine, 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 Engine 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 RMB259,317,000 (2010: RMB18,511,000).

LOCAL AND EXPORT SALES

During the year, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB1,124,175,000 (2010: RMB866,414,000), accounting for 15.8% to total sales (2010: 11.7%) and representing an increase of 4.1% to total sales over the previous year. At present, the overseas customer base of the Company 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 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 2011, the Group was granted 167 patents in total, of which 48 new patents was granted in 2011. Besides, the Group has applied for 45 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. Nanjing High Accurate Marine Equipment Co., Ltd., a subsidiary of the Company, has obtained the workshop approval issued by Bureau Veritas (BV) in France. The welding workshop of the Company has obtained the workshop approvals issued by China Classification Society (CCS), Lloyd's Register of Shipping (LR) in UK, Germanischer Lloyd (GL) in Germany and Bureau Veritas (BV) in France. Our wind power products have obtained certifications from Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (GL) and DEWI-OCC Offshore and Certification Centre in Germany.

FINANCIAL PERFORMANCE

Affected by the market volatility and various external factors, the growth of the Group's results slowed down. Overall sales revenue of 2011 decreased by 3.7% to approximately RMB7,120,712,000.

Revenue

	Year ended 31 December	
	2011	*2010*
	RMB'000	RMB'000
High-speed Heavy-load Gear Transmission Equipment	23,282	24,798
Gear Transmission Equipment for Construction Materials	700,863	668,452
General Purpose Gear Transmission Equipment	135,188	144,740
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	400,144	550,743
Other products	466,328	211,229
Traditional Products - Subtotal	1,725,805	1,599,962
Wind Gear Transmission Equipment	4,769,523	5,457,532
Marine Gear Transmission Equipment	253,571	234,253
Transmission Equipment for High-speed Locomotives and Urban Light Rails	51,046	36,310
CNC Products	61,450	46,081
Diesel Engine Products	259,317	18,511
Total	7,120,712	7,392,649

REVENUE

The Group's sales revenue for 2011 was approximately RMB7,120,712,000, representing a decrease of 3.7% as compared with last year. The decrease was mainly due to the decline in sales revenue of wind power gear box products and the decrease in average selling prices of wind power gear box equipment during the Period under Review. As a result, sales revenue decreased from approximately RMB5,457,532,000 in 2010 to approximately RMB4,769,523,000 in 2011, representing a decrease of 12.6%. During the Period under Review, the Group's sales revenue from traditional products (of which sales revenue of RMB52,605,000 from other products was contributed by products of boiler series) was approximately RMB1,725,805,000, representing an increase of 7.9% as compared with last year. During the Period under Review, sales revenue of marine gear transmission equipment, transmission equipment for high-speed locomotives and urban light rails, and CNC products amounted to approximately RMB253,571,000, RMB51,046,000 and RMB61,450,000, representing increases of 8.2%, 40.6% and 33.4% as compared with last year, respectively. During the Period under Review, the Group's sales revenue from diesel engine products was approximately RMB259,317,000 (2010: RMB18,511,000).

Gross profit margin and gross profit

The Group's consolidated gross profit margin was approximately 25.5% for 2011, representing a decrease of 4.4% as compared with last year. The decrease was mainly attributable to the drop in average selling prices of wind power gear box products of the Group and the adjustment of the selling prices of some traditional products based on the market environment. Consolidated gross profit for 2011 reached approximately RMB1,818,796,000 (2010: RMB2,212,644,000), representing a decrease of 17.8% as compared with last year.

Other income, other gain and loss

The total amount of other income of the Group for 2011 was approximately RMB231,613,000 (2010: RMB200,185,000), representing an increase of 15.7% 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 gain and loss recorded a net loss of approximately RMB70,078,000 (2010: a net gain of RMB111,317,000), which mainly comprised fair value loss on convertible bonds and loss on derivative financial instruments of RMB88,234,000 and net gain on foreign exchange of RMB18,156,000.

Distribution and selling costs

The distribution and selling costs of the Group for 2011 were approximately RMB254,278,000 (2010: RMB200,952,000), representing an increase of 26.5% 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 2011 was 3.6% (2010: 2.7%), representing an increase of 0.9% to sales revenue as compared with last year.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB460,049,000 for 2010 to approximately RMB527,057,000 for 2011, partly due to the increase in the number of staff and staff costs, and the increase in amortisation of intangible assets. The percentage of administrative expenses to sales revenue increased slightly by 1.2% to 7.4% as compared with the last year.

Other expenses

Other expenses of the Group for 2011 were RMB123,231,000 (2010: RMB57,300,000), which was mainly due to the increase in provision for bad debts.

Finance costs

In 2011, the finance costs of the Group was approximately RMB323,399,000 (2010: RMB146,842,000), representing an increase of 120.2% as compared with last year, which was mainly due to the significant increase in total amount of bank loans and increase in interest rates of bank loans in 2011.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2011, the equity attributable to owners of the Company amounted approximately to approximately RMB7,472,581,000 (2010: RMB7,392,730,000). The Group had total assets of approximately RMB18,400,984,000 (2010: RMB14,931,515,000), representing an increase of RMB3,469,469,000, or 23.2%, as compared with the beginning of the year. Total current assets of the Group were approximately RMB10,253,113,000 (2010: RMB8,142,157,000), representing an increase of 25.9% as compared with the beginning of the year and accounting for 55.7% of total assets (2010: 54.5%). Total non-current assets were approximately RMB8,147,871,000 (2010: RMB6,789,358,000), representing an increase of 20.0% as compared with the beginning of the year and accounting for 44.3% of the total assets (2010: 45.5%).

As at 31 December 2011, total liabilities of the Group were approximately RMB10,778,949,000 (2010: RMB7,417,174,000), representing an increase of RMB3,361,775,000 as compared with the beginning of the year. Total current liabilities were approximately RMB7,997,949,000 (2010: RMB5,225,886,000), representing an increase of 53.0% as compared with the beginning of the year whereas total non-current liabilities were approximately RMB2,781,000,000 (2010: RMB2,191,288,000), representing an increase of approximately 26.9% as compared with the beginning of the year.

As at 31 December 2011, the net current asset of the Group was approximately RMB2,255,164,000 (2010: RMB2,916,271,000), representing a decrease of RMB661,107,000, or 22.7%, as compared with the beginning of the year.

As at 31 December 2011, total cash and bank balances of the Group were approximately RMB3,427,514,000 (2010: RMB3,037,405,000), including pledged bank deposits of RMB1,252,922,000 (2010: RMB766,839,000) and restricted cash of RMB0 (2010: RMB146,798,000). As at 31 December 2010, these restricted cash represented the remaining balance of restricted deposits payable by the Group in respect of the Equity Swap entered into with Morgan Stanley & Co. International plc on 22 April 2008. The Equity Swap was settled on 16 May 2011 and thus the restricted cash reduced to zero as a result of the settlement of the Equity Swap.

As at 31 December 2011, the Group had total bank loans of approximately RMB7,618,457,000 (2010: RMB3,251,701,000), of which short-term bank loans were RMB4,991,382,000 (2010: RMB1,208,651,000), accounting for approximately 65.5% (2010: 37.2%) of the total bank loans. The short-term bank loans are repayable within one year. The average effective interest rate of the Group's bank loans for 2011 ranged from 4.00% to 8.53% (2010: 3.51% to 7.97%).

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the allotment of 130,000,000 top-up placing shares with net proceeds of approximately HK$2,223,000,000 in September 2010, the directors of the Company believe that the Group will have a sound and strong financial position as well as sufficient resources 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 49.7% in 2010 to 58.6% in 2011.

Capital structure

Convertible bonds

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds due 2011 in an aggregate principal amount of RMB1,996,300,000 (equivalent to approximately US$286,000,000) to Morgan Stanley & Co. International plc (as the lead manager).

On 16 May 2011, the Company redeemed an aggregate principal amount of RMB1,147,000,000, being all the outstanding principal amount of the bonds, for US$192,935,793, being an amount equal to the US Dollar equivalent of the principal amount of the bonds in RMB multiplied by 109.3443%. Upon redemption, the bonds were cancelled forthwith.

The Company's source of funding for redemption includes its internal fund and substantial part of the proceeds raised from a syndicated loan in the second quarter of 2011. The syndicated loan comprises a term loan facility of US$16.5 million (which bears an interest rate equivalent to LIBOR plus 2.05%) and HK$1.05 billion (which bears an interest rate equivalent to HIBOR plus 2.05%). The terms of both tranches are three years.

For the year ended 31 December 2011, loss on fair value changes of such convertible bonds was RMB34,246,000 (2010: gain on fair value changes of convertible bonds was RMB148,916,000).

Equity Swap

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds, the Company entered into a cash settled equity swap transaction with Morgan Stanley & Co. International plc (the "Equity Swap Counterparty") for the Company's shares amounting to HK$1,113,013,000 (equivalent to approximately RMB981,566,000).

On 6 November 2009, the Company and the Equity Swap Counterparty entered into the Amended and Restated Equity Swap, pursuant to which, among other things, the Company was granted an option to require the Equity Swap Counterparty to settle a termination of the remaining equity swap, in whole or in part, by way of the Share Delivery Option as an alternative to cash settlement.

On 11 May 2011, the Company has given notice to the Equity Swap Counterparty of its election of the Share Delivery Option as the settlement method in respect of the scheduled termination of the remaining equity swap in whole under the Amended and Restated Equity Swap. According to the requirement of the delivery, the Equity Swap Counterparty delivered to the Company 12,612,707 Shares, whereupon the Equity Swap Counterparty's obligation to repay the remaining proportional amount of the Initial Exchange Amount (i.e. HK$172,520,390.16) to the Company shall be extinguished. The repurchase of Shares by the Company was made at a price equivalent to the Initial Price of HK$13.6783 per Share (excluding costs) for a total of 12,612,707 Shares with a consideration of HK$172,520,390.16 by way of off-market purchase of Shares upon completion of settlement. The repurchases of Shares were cancelled on 27 May 2011.

For the year ended 31 December 2011, loss on the Equity Swap was approximately RMB53,988,000 (2010: loss was RMB37,599,000).

The Group's operations were financed mainly by shareholder's equity 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.

PROSPECTS

According to the report issued by World Wind Energy Association (WWEA) at the beginning of 2012, due to the rapid development of wind energy in emerging economies, in particular the PRC, installed capacity of the global wind energy increased by 21% as compared with last year. Total installed capacity reached a record high and increased significantly as compared with 2010. As the largest wind power country in the world, the PRC maintained and enhanced its leading position in the world.

The wind power industry in the PRC experienced a fast growth over the past three years. There was keen competition and excessive productivity in the market of wind power generating units. The industry entered an important adjustment stage in 2011. Industry consolidation will eliminate excessive productivity and improve the quality of wind power generating units. It will also fill the technical gap of auxiliary facilities and facilitate the sound development of the wind power industry in a longer term. The Group believes that the wind power industry in China will become stronger, healthier and more competitive after the consolidation.

Last year was challenging for the global market and a number of major political and economic events occurred. In the face of the challenging global economic conditions, the People's Bank of China raised the reserve requirement ratio 6 times during the year to ease the inflation pressure brought by fast growing economy. In 2012, the market will remain uncertain.

For the coming year, the Group will adopt prudent development strategies. The development targets of the wind power transmission equipment products are to expand its product scale and diversify its product mix. Capitalising on its advanced techniques of research and development, high quality products and excellent market insights, the Group will continuously expand its businesses and carry out products restructuring to consolidate its position in the industry and attract more customers.

Besides, the Group will follow the mainstream development trend of high capacity wind power equipment and continue to provide 3MW wind power gear box to customers while speeding up the research progress of 5MW wind power gear box transmission equipment. The Group will put emphasis on maintaining the long-term close cooperation relationship with its existing customers and increase orders from overseas. In 2011, the Group established business relationships with renowned international enterprises, including Suzlon of India and ALSTOM Wind of France. In 2011, the Group delivered to GE Energy approximately 1,000 sets of 1.5 MW wind power gear boxes, representing an increase of about 100% as compared with last year. The Group anticipated that the orders from GE Energy will further increase significantly in 2012. With the continuous expansion of overseas market, the Group has established stable and close relationship with domestic and overseas customers. Orders from major customers increased yearly and this reflects that our quality products had won the confidence of customers.

In addition to consolidating the development of wind power gear equipment, the Group will also develop railway and marine transmission equipment. Popularisation of high-speed railway in China has boosted the development of high-speed locomotives, metros and urban light rail transmission equipment markets and laid a solid foundation for its future rapid profit growth in the railway sector. In respect of marine equipment, the Group is one of the largest marine propeller system manufacturers in the PRC. In order to optimise its product mix, the Group provides one-stop service for our customers. In 2011, the Group established its first sales company in Singapore in the hope of opening a sales channel to Southeast Asia and other parts of the world. We believe that the marine gear transmission equipment segment will have a very bright future in view of the recovery of the global economy.

The Group is planning to expand its traditional gear transmission equipment business overseas. Last year, test run of the installed metallurgy equipment set by Swedish customer was successful, indicating that the Group was approved by Sweden, an European country famous for its machinery industry. The Group successfully sold its construction materials gear transmission equipment to customers in Turkey, representing a major step of the Group's development in the European market. It maintained a stable profit contribution of such business segment.

The Group will develop coal mechanical equipment business through joint ventures. In October 2011, the Group delivered invented self-developed boring machine sample to Beijing for exhibition and the product quality won a good reputation from customers.

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, 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 Company will focus on the development of power transmission equipment such as electric control system and transducers for providing one-stop services to customers.

In order to comply with its future development strategy, the Group acquired AE&E Nanjing Boiler Co., Ltd., formerly known as Nanjing Boiler Works, successfully in April 2011. The Group will improve its management system and provide capital support to deploy a new development strategy for strengthening its synergy with other business segments of the Group. The acquisition will provide strong support to the welding and production processes for the future development of the mechanical equipment business of the Group, such as coal mechanical equipment.

In 2011, the Group also established a joint venture 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.

Looking forward, the renewable power industry is full of opportunities and challenges. Fluctuations are unavoidable in the global financial market in the coming year. Through expanding different business segments, the Group will consolidate its major businesses and develop additional sources of profit growth. As such, the Group will be able to cope with the changing market environment, explore new markets, consolidate its strength and grasp future market opportunities.

OTHER SUPPLEMENTARY INFORMATION

FINAL DIVIDEND

During the year, a final dividend of HK33 cents (equivalent to RMB28 cents) per share for 2010 has been paid to shareholders.

The Board did not recommend payment of a final dividend for the year ended 31 December 2011.

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.

As at 31 December 2011, the balance of the Hong Kong dollar net proceeds which the Company received from the global offerings on 4 July 2007 and the net proceeds of approximately US$280,000,000 derived from the issue of convertible bonds on 14 May 2008, the amount recovered from the early termination of the equity swap contract of approximately HK$883,505,000 and the net proceeds of approximately HK$2,223,000,000 from the 130,000,000 top-up placing shares on 21 September 2010 were mostly converted into Renminbi. In addition, bank borrowings that may expose to foreign exchange rate risks, would be the Group's bank borrowings denominated in U.S. dollars and Hong Kong dollars as at 31 December 2011 amounting to approximately US$94,709,000 and HK$1,050,000,000, respectively. The Group may thus be exposed to exchange risks.

The net gain of foreign exchange recorded by the Group during the Period under Review was approximately RMB18,156,000 (2010: a net loss of RMB31,057,000), 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 2011.

INTEREST RATE RISK

The loans of the Group are mainly sourced from bank borrowings. Therefore, the benchmark lending rate announced by the People's Bank of China ("PBOC"), 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. With a good credit record, part of the Group's cost of debt was charged at an interest rate below the prevailing interest rate of RMB loans of the of PBOC over the same period. 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. The Group currently does not have any interest rate hedging policy.

EMPLOYEES AND REMUNERATION INFORMATION

As at 31 December 2011, the Group employed approximately 7,127 employees (2010: 5,932). Staff cost of the Group for 2011 approximated to RMB866,837,000 (2010: RMB532,600,000). The cost included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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.

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

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 note carries an interest rate of 6.6% per annum and shall be repayable on 22 March 2013. The Group plans to use the funds raised for repayment of bank loans and its working capital.

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.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "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 2011 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.

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.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries of all directors by the Company, all directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2011.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Save for the physical settlement of the equity swap on 16 May 2011 (which constituted the off market share repurchase of 12,612,707 shares by the Company at a price equivalent to the initial price of HK$13.6783 per share (excluding costs) for a total price of HK$172,520,390.16) as disclosed in the paragraph headed "Capital Structure — Equity Swap" above, 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 2011.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2011 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu in this announcement.

PUBLICATION OF THE AUDITED CONSOLIDATED ANNUAL RESULTS AND 2011 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This annual results announcement is published on the websites of the Stock Exchange and the Company, and the 2011 Annual Report containing all the information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board of
China High Speed Transmission Equipment Group Co., Ltd.
HU YUEMING
Chairman

Hong Kong, 30 March 2012

As at the date of this announcement, the executive directors of the Company are Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Lu Xun, Mr. Li Shengqiang, Mr. Liu Jianguo, Mr. Liao Enrong and Mr. Jin Maoji; and the independent non-executive directors are Mr. Zhu Junsheng, Mr. Jiang Xihe and Mr. Chen Shimin.