中國高速傳動設備集團有限公司*

China High Speed Transmission Equipment Group Co., Ltd.

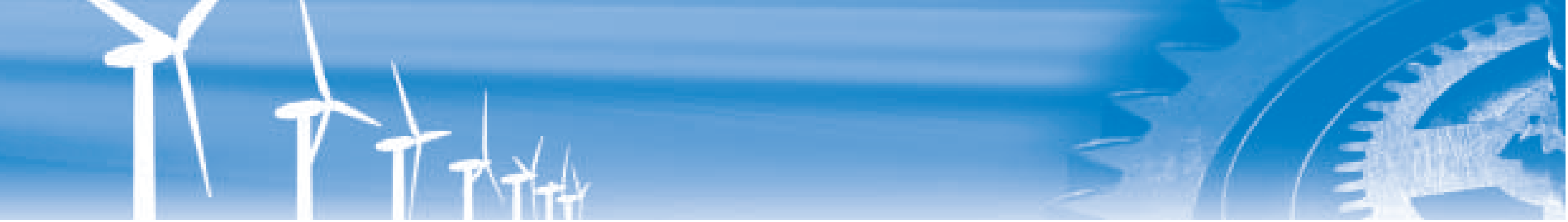
(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

2011 Annual Report

* 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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

Clifton House
P.O. Box 1350
75 Fort Street
George Town
Grand Cayman KY1-1108
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

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 609
Grand Cayman KYI-1107
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., Shanghai Branch

WEBSITE

www.chste.com

PLACE OF LISTING

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

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.

CHAIRMAN'S STATEMENT

I am pleased to present the 2011 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the "Company"). For the year ended 31 December 2011 (the "Period under Review"), the Company and its subsidiaries (collectively referred to as the "Group") recorded sales revenue of approximately RMB7,120,712,000, representing a decrease of approximately 3.7% from 2010. Profit attributable to owners of the Company was approximately RMB556,974,000, representing a decrease of approximately 59.7% from last year, or a decrease of approximately 49.3% from last year if excluding the changes in fair values of convertible bonds and equity swap. The gross profit margin for the year was 25.5%, representing a decrease of 4.4 percentage points from last year.

A number of major political and economic events occurred in 2011. In March, Japanese economy was badly hit by the tsunami resulted from a serious earthquake near Japanese waters. The sovereignty rating of the US was downgraded by rating agencies during a political struggle between the two political parties on the increase of its debt ceiling in August. Moreover, the European debt crisis worsened as a result of the concern about the refinancing of the sovereign debts of Greek. 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 2011, all major business segments of the Group maintained their growth momentum under unfavourable market conditions and factors. I would like to take this opportunity to express my heartfelt gratitude to the management, the directors, our staff, shareholders and investors for their efforts and trust as well as business partners for their continuous support.

With regard to wind power business, one of our major business segments, some customers postponed the delivery of wind power gear boxes. In 2011, the Group sold wind power gear transmission equipment of approximately 8,600MW, similar to last year. The finance costs of the Group increased in 2011 due to the tightened monetary policy of the government. As a leading player in the wind power gear transmission equipment market in the PRC with competitive advantages in market share, the Group adjusted the prices of wind gear box products downward to enable our customers to overcome the hard time.

CHAIRMAN'S STATEMENT

As a result of the fast growth over the past three years, China has become the largest wind power market with the highest aggregate installed capacity. Tracing back to the development history of the wind power industry in the PRC, the market fluctuation in 2011 was not unexpected. A number of problems emerged due to the fast growth of wind power market in the PRC. The problems included the poor connectivity between wind power facilities and power grids, substandard wind turbines, unusual price fluctuations caused by severe competition of the wind turbine industry and geographical limitation of wind power resources in the PRC. Wind-farms in the PRC are mainly located in Xinjiang and Inner-Mongolia in the northwest region while Shanghai, Zhejiang and Jiangsu in the eastern costal area have the highest power consumption. The West-to-East Power Transmission project（西電東輸）became an important agenda and was intended to alleviate the geographic imbalance. The development of power grids was crucial to the development of the wind power industry. During the consolidation of the wind power industry in 2011, the growth of the Group was slightly affected by changes in government policies. 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. We believe that the wind power industry in China will become healthier and stronger for an exponential growth.

The Group will further expand its market share and customer base by the introduction of more high capacity wind power gear boxes. In 2011, the Group had delivered approximately 67 sets of 3MW high wind power gear boxes and expects to deliver 200 to 300 sets of 3MW gear boxes in 2012 in accordance with our plan. Although the market conditions were not favourable, the Group managed to expand its customer base through cooperation with overseas customers, including Suzlon of India and ALSTOM Wind of France. In 2011, we had 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. We 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 as our quality products had won the confidence of well known customers. We will further improve the competiveness of our products in the international market and will proceed with the development of 5MW wind power transmission equipment to further expand our market share.

With regard to the marine gear transmission equipment segment, the Group is one of the largest marine propeller system manufacturers in the PRC. In order to optimize its product mix, the Group acquired Nantong Diesel Engine Co., Ltd. ("Nantong Diesel") in the Period under Review to provide one-stop service for our customers. In 2011, the Group established its first sales company in Singapore in hope of opening a sales channel to Southeast Asia and other parts of the world. The sales of marine gear transmission equipment products are highly correlated with the global economy. We believe that the marine gear transmission equipment segment will have a very bright future in view of the recovery of global economy.

CHAIRMAN'S STATEMENT

The transmission equipment for high-speed locomotives and urban light rail segment of the Group has developed steadily. Our products are used in subways of major cities including Shanghai, Beijing, Nanjing and Shenzhen and their operations are smooth. The Group will capitalise on the opportunities to enhance the research and development of light rail and high-speed train gear equipment. The Group will further expand its three major businesses namely the high-speed railway, subway and urban light rail business. Our products are highly recognized by overseas customers. We believe that the rail transportation transmission equipment will become a new source of growth of the Group.

The Group has been developing overseas market while maintaining our position in the domestic market. The Group had a major breakthrough in its traditional gear transmission equipment business in 2011. Metallurgy gear transmission equipment of the Group was approved by Sweden, a European country famous for its well developed machinery industry. Trial run of our equipment by Swedish customer was successful. 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. In 2011, the PRC government adopted a series of austerity measures to prevent the economy from overheat. The Group took the opportunity to further consolidate and enhance its strength established in recent years and to grasp future market opportunities.

In 2011, the market was challenging in general. In 2012, the market will remain uncertain. In view of such, the Group will adopt a prudent strategy while proactively improving existing products and developing new business to achieve a diversified business model. The Group will continue to consolidate its market position through enhancing the product quality and promoting the brand name and to reduce risk in unfavourable market environment. While consolidating its strength, the Group will explore new market opportunities.

Hu Yueming
Chairman

30 March 2012

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 approximately 25.5%. Profit attributable to owners of 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 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. 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; and (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**

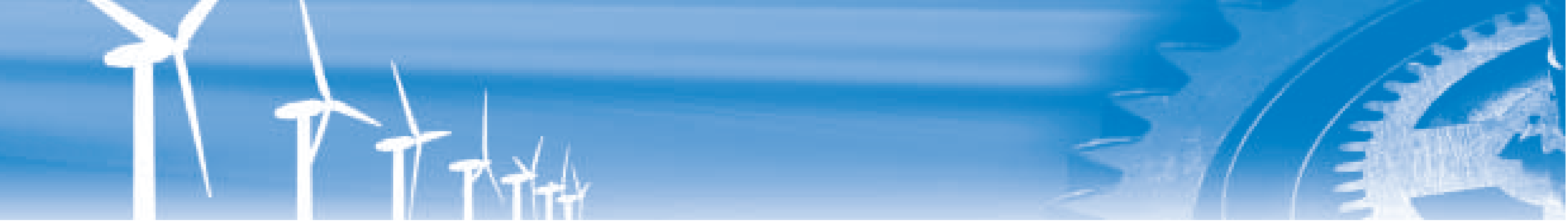
In order to improve the application of marine transmission equipment, the Group acquired Nantong Diesel in December 2010. The company is located in Nantong, Jiangsu Province, which is a prosperous region of the Yangtze River Delta.

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 RMB259,317,000 (2010: RMB18,511,000).



MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

MANAGEMENT DISCUSSION AND ANALYSIS

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, mainly 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 nil (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.

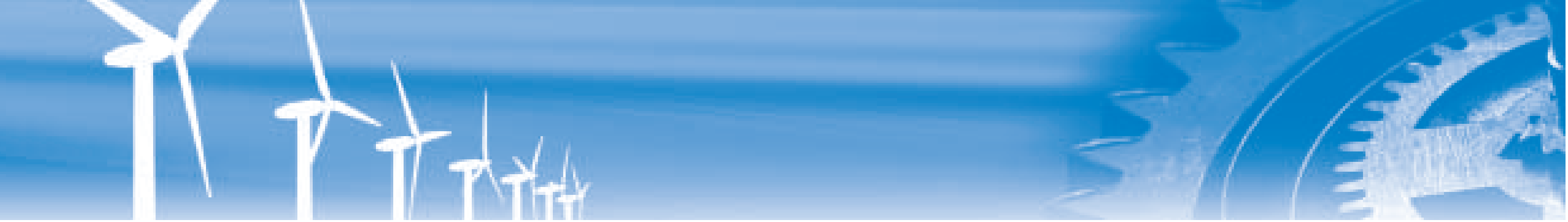
For the year ended 31 December 2011, loss on the Equity Swap was approximately RMB53,988,000 (2010: loss was RMB37,599,000).

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 in 2011 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.



MANAGEMENT DISCUSSION AND ANALYSIS

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.

PLEDGE OF ASSETS

Save as the pledge of assets set out in note 41 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2011.

CONTINGENT LIABILITIES

As at 31 December 2011, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 31 December 2011, 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 RMB870,404,000 and RMB9,712,000 respectively (2010: RMB509,021,000 and RMB12,244,000). Details are set out in notes 40 and 42 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.

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 POLICY

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.

The remuneration committee of the Company is responsible to make recommendations to the Board on the Company's remuneration policy and structure of all Directors and senior management and determine the specific remuneration packages of all executive Directors and senior management.

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 38) 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 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.

DIRECTORS AND SENIOR MANAGEMENT

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

EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 62, 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 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 Gear Manufacturing Co., Ltd. ("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 High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine"), Nanjing Ninghongjian Mechanical Co., Ltd. ("Ninghongjian"), Nanjing High Drive Automation Equipment Co., Ltd. ("High Drive"), Nanjing Sky Electronic Enterprise Co., Ltd. ("Sky Electronic"), Zhenjiang Tongzhou Propeller Co., Ltd. ("Zhenjiang Tongzhou"), Jiangsu Hongsheng Heavy Industry Group Co., Ltd. ("Hongsheng Heavy Industry"), Zhong-Chuan Heavy Duty Equipment Co., Ltd. ("Zhong-Chuan Heavy Duty"), Global Power Asia Limited ("Global Power"), 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"), and an affiliated company of Nanjing E-crystal Energy Co., Ltd. ("Nanjing E-crystal") .

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Yongdao, aged 49, 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, Zhenjiang Tongzhou and China Transmission Holdings. 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 of the Company.

Mr. Lu Xun, aged 57, 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, 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 of the Company.

Mr. Li Shengqiang, aged 58, 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, 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 of the Company.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Jianguo, aged 42, is an executive Director of the Group. 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 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 is the president of Chinese Renewable Energy Industries Association（可再生能源行業協會） in Jiangsu Province and has engaged in the research, design and development of mechanical transmission equipment and enterprise management for more than 20 years. He has received a number of awards including the certificate of expert with outstanding contribution in the gear industry in the PRC and Science and Technology Awards for the PRC Mechanical Industry (FD1660-type Wind Power Gear)（中國機械工業科學技術獎(FD1660型風力發電機齒輪箱)）. He is also one of the Management Shareholders of the Company.

Mr. Liao Enrong, aged 51, is an executive Director of the Group. 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, Sky Electronic, Hongsheng Heavy Industry, Zhong-Chuan Heavy Duty, Global Power, 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 of the Company.

Mr. Jin Maoji, aged 58, 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 and High Drive. 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 53, 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 and Jiangsu Qionghua High-Tech Company Limited.

Mr. Zhu Junsheng, aged 72, 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 Group on 8 June 2007 as independent non-executive Director.

Mr. Chen Shimin, aged 53, is an independent non-executive Director of the Company. 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 doctorial 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 at China Europe International Business School. He is also a guest professor and Ph.D. supervisor of the Department of Accounting in Nanjing University and 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., Hangzhou i-Cafe Information Technology Co., Ltd. and Sun.King Power Electronics Group Limited.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 49, is a chief financial officer and company secretary of the Group. 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 Group in June 2006 and is responsible for the financial and accounting management and secretarial affairs of the companies under the Group. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Group.

Ms. Zhou Jingjia, aged 48, is the financial controller of NGC. She graduated from Soochow 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, Sky Electronic, Hongsheng Heavy Industry, Zhong-Chuan Heavy Duty, AE&E Nanjing, Global Power, 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 2011.

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 47, 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 2011 are set out in the consolidated statement of comprehensive income on pages 44 and 45 in the consolidated financial statements.

The Directors do not recommend payment of a dividend for the year ended 31 December 2011 and propose that the profit for the year be retained.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2011 was approximately RMB3,482,684,000 (2010: RMB3,787,818,000).

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2011 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 37 to the consolidated financial statements.

DONATION EXPENDITURE

During the period under review, the donation expenditure of the Group was approximately RMB376,000 (2010: RMB328,000).

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.

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 38 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:

					Number of share options					
Grantee(s)	Date of grant	Exercisable period (Note 1)	Vesting period	Exercise per share HK$ (Note 2 & 3)	Outstanding as at 1 January 2011	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2011 (Note 5 & 6)
Qualified employees	6 November 2008	6 November 2008 to 5 November 2013	Nil	5.60	12,000,000	—	285,200	—	—	11,714,800
Total					12,000,000	—	285,200	—	—	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. During the period under review, a total of 285,200 options had been exercised. The weighted average closing price of the Company's shares immediately before the dates on which the share options were exercised was HK$11.08.
6. The fair value of the share options determined at the date of grant using the Binominal model is approximately RMB30,030,000.
7. 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 RMB1,542,163,000 and RMB369,710,000, representing 30.8% 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 RMB3,624,061,000 and RMB1,005,332,000, representing 50.9% and 14.1% 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 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 18 June 2010
Mr. Lu Xun	Three years from the date of his re-election on 18 June 2010
Mr. Li Shengqiang	Three years from the date of his re-election on 19 June 2009
Mr. Liu Jianguo	Three years from the date of his re-election on 19 June 2009
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

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 2011, 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.

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 2011, 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	268,974,024 (Long Position)	19.74 (Long Position)
JPMorgan Chase & Co. (Note 2)	Beneficial owner and custodian corporation/ approved lending agent	87,098,708 (Long Position)	6.39 (Long Position)
		26,317,299 (Short Position)	1.93 (Short Position)
		58,365,681 (Lending Pool)	4.28 (Lending Pool)
The Capital Group Companies, Inc.	Investment manager	123,601,900 (Long Position)	9.07 (Long Position)

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

Notes:

(1) Fortune Apex Limited owns 19.74% interest in the issued share capital of the Company, among which 57,000,000 shares (approximately 4.18% interest) are derivative interests. 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) According to the disclosure form filed by JPMorgan Chase & Co. on 12 December 2011, the following interests in shares were held by JPMorgan Chase & Co. and corporations controlled by it in the following capacities:

Capacity	No. of Shares
Beneficial owner	87,098,708 (Long position)
	26,317,299 (Short position)
Custodian corporation/approved lending agent	58,365,681 (Long position)

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2011, 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.

DISCLOSEABLE TRANSACTIONS

On 2 December 2011, the Company entered into a cornerstone investment agreement with, amongst other parties, Guodian Technology & Environment Group Corporation Limited ("Guodian Tech") in relation to the proposed equity investment in Guodian Tech as part of its international offering. The total consideration is approximately USD40,000,000 (equivalent to approximately HKD311,200,000). The cornerstone investment agreement was completed on 30 December 2011. The offer price was fixed at HKD2.16 and accordingly the number of the shares of Guodian Tech as held by the Company is 144,100,000 H Shares, representing approximately 12.12% of the total number of issued H Shares and 2.42% of the total number of the issued shares of Guodian Tech (including both H Shares and its domestic shares) on its listing date (being 30 December 2011). The Group paid the consideration with internal resources and banking facility.

According to the Listing Rules, the above transaction constitutes a discloseable transaction, announcements in respect of which were issued by the Company on 5 December 2011 and 30 December 2011.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2011 are set out in note 45 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 45 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

No transaction listed in note 45 to the consolidated financial statements constitutes a discloseable connected transaction under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

As at 31 December 2011, 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 2012.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 32 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, 30 March 2012

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.

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.

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 of the Company comprises ten Directors, including seven executive Directors and three independent non-executive Directors. The Board held four meetings during the year ended 31 December 2011. The attendance of the Directors at the meetings is as follows:

	Attendance during the year
Executive Directors:	
Mr. Hu Yueming (Chairman and Chief Executive Officer)	4/4
Mr. Chen Yongdao	2/4
Mr. Lu Xun	2/4
Mr. Li Shengqiang	2/4
Mr. Liu Jianguo	1/4
Mr. Liao Enrong	4/4
Mr. Jin Maoji	2/4
Independent non-executive Directors:	
Mr. Jiang Xihe	2/4
Mr. Zhu Junsheng	2/4
Mr. Chen Shimin	2/4

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.

The Board is responsible for the management and control of the Company as well as supervision of the business, decision and performance of the Group. The Board has respectively granted and delegated the power and responsibility to the management for the management of the daily operation of the Group. The Directors have also specifically granted the management the general authorisation to handle major corporate matters, including the preparation of interim reports, annual reports and announcements for the approval by the Board before publishing, execution of business strategies and measures adopted by the Board, implementation of proper internal control and risk management procedures and compliance with relevant statutory and regulatory requirements, rules and laws.

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 of the Listing Rules.

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

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 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 of all Directors and senior management and determine the specific remuneration packages of all executive Directors and senior management.

The remuneration committee held one meeting during the year ended 31 December 2011 to review the remunerations of the Directors and the senior management members. The attendance of the members of the remuneration committee at the meetings is as follows:

	Attendance during the year
Non-executive Directors:	
Mr. Chen Shimin (Chairman)	1/1
Mr. Jiang Xihe	1/1
Mr. Liu Jianguo	1/1

NOMINATION OF DIRECTORS

During the Period under Review, the Board is empowered to nominate, consider and approve the relevant appointment of Directors, with an aim of appointing proper individuals with relevant professional expertise and experience into the Board to enhance the constitution of a strong and diverse Board and to contribute to the functioning of the Board through their continuous participation and contributions. The Company has not appointed any Director during the Period under Review.

The Board resolved to establish 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 is the chairman of the nomination committee.

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.

The audit committee held two meetings during the year ended 31 December 2011 to (i) review the functions of the internal audit department of the Group and hear the work report prepared by the internal audit department; and (ii) review the annual report for the year 2010 and the interim report for the year 2011 of the Group and report the review conclusions to the Board. The attendance of Directors at the meetings is as follows:

	Attendance during the year
Mr. Jiang Xihe (Chairman)	2/2
Mr. Zhu Junsheng	2/2
Mr. Chen Shimin	2/2

The annual report for the year ended 31 December 2011 of the Group had been reviewed by the audit committee.

REMUNERATION OF AUDITOR

For the year ended 31 December 2011, the fee payable by the Group to Deloitte Touche Tohmatsu for their statutory audit services amounted to RMB3,092,000 (2010: RMB3,038,000). The non-audit service fee included the fees for the following services:

	Year ended 31 December	
	2011 RMB '000	2010 RMB '000
Tax services	568	504
Review of interim results	873	872
Other non-audit services	640	—
	2,081	1,376

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 42 to 43.

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 interests of the shareholders.

In 2011, the audit committee reviewed the functions of the internal audit department of the Group, including formulating supervision policies and methods, in order to enhance the comprehensiveness of the internal audit system.

In 2011, 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 till the publishing date of this annual report and accounts.

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 44 to 147, which comprise the consolidated statement of financial position as at 31 December 2011, 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 2011 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
30 March 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Revenue	7	**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	8	**231,613**	200,185
Other gains and losses	9	**(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	10	**(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	11	**(147,488)**	(256,543)
Profit for the year	12	**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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
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	15		
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	16	5,588,890	4,869,764
Prepaid lease payments	17	609,362	399,304
Goodwill	18	17,715	17,715
Intangible assets	19	271,303	196,570
Interests in associates	20	186,066	56,744
Interests in jointly controlled entities	21	652,284	624,162
Available-for-sale investments	22	362,945	148,646
Deposit for land lease	23	400,000	380,458
Prepayment for acquisition of property, plant and equipment	24	31,373	59,265
Deferred tax assets	25	27,933	36,730
		8,147,871	6,789,358
CURRENT ASSETS			
Inventories	26	1,799,018	1,257,663
Prepaid lease payments	17	13,321	8,554
Trade and other receivables	27	4,937,637	3,810,804
Amounts due from associates	28	30,431	—
Amount due from a jointly controlled entity	29	26,744	9,339
Pledged bank deposits	30	1,252,922	766,839
Derivative financial instrument	35	—	18,392
Restricted cash	35	—	146,798
Tax asset		18,448	—
Bank balances and cash	30	2,174,592	2,123,768
		10,253,113	8,142,157
CURRENT LIABILITIES			
Trade and other payables	31	2,825,862	2,554,238
Amount due to a related party		—	1,435
Amounts due to associates	28	397	1,312
Amount due to a jointly controlled entity	29	11,686	6,665

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2011

	NOTES	2011 RMB'000	2010 RMB'000
Tax liabilities		**87,361**	175,259
Borrowings - due within one year	32	**4,991,382**	1,208,651
Warranty provision	33	**81,261**	58,393
Financial liabilities designated as at fair value through profit or loss - convertible bonds	34	**—**	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
NON-CURRENT LIABILITIES			
Borrowings - due after one year	32	**2,627,075**	2,043,050
Deferred tax liabilities	25	**63,066**	86,166
Deferred income	36	**90,859**	62,072
		2,781,000	2,191,288
		7,622,035	7,514,341
CAPITAL AND RESERVES			
Share capital	37	**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

The consolidated financial statements on pages 44 to 147 were approved and authorised for issue by the Board of Directors on 30 March 2012 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	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)	Statutory surplus reserve RMB'000 (note c)	Other reserve RMB'000 (note d)	Exchange reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2010	94,633	2,373,863	77,651	154,091	163,702	52,335	(3)	30,030	1,474,635	4,420,937	29,415	4,450,352
Profit for the year	—	—	—	—	—	—	—	—	1,383,635	1,383,635	9,823	1,393,458
Other comprehensive expense for the year	—	—	—	—	—	—	(355)	—	—	(355)	—	(355)
Total comprehensive income (expense) for the year	—	—	—	—	—	—	(355)	—	1,383,635	1,383,280	9,823	1,393,103
Dividend recognised as distribution (note 14)	—	—	—	—	—	—	—	—	(327,427)	(327,427)	—	(327,427)
Appropriation	—	—	—	—	135,191	—	—	—	(135,191)	—	—	—
Conversion of 2008 Convertible Bonds (as defined in note 34)	1	99	—	—	—	—	—	—	—	100	—	100
Issue of shares on placement of shares	8,711	1,907,129	—	—	—	—	—	—	—	1,915,840	—	1,915,840
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	6,900	6,900
On acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	—	79,573	79,573
Acquisition of additional interest in subsidiaries	—	—	—	—	—	—	—	—	—	—	(4,100)	(4,100)
At 31 December 2010	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 for the year	—	—	—	—	—	—	—	—	556,974	556,974	(9,386)	547,588
Other comprehensive expense for the year	—	—	—	—	—	—	(291)	—	—	(291)	—	(291)
Total comprehensive income (expense) 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 35)	(821)	(112,189)	—	—	—	—	—	—	—	(113,010)	—	(113,010)
Appropriation	—	—	—	—	53,849	—	—	—	(53,849)	—	—	—
Capital contributions by non-controlling shareholdersof 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

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 2010 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 increment in current year represents the difference between the consideration and the net assets of non-controlling interest of a subsidiary upon acquisition of additional interest in a subsidiary.

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 2011

	NOTE	2011 RMB'000	2010 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		695,076	1,650,001
Adjustments for:			
Allowance for inventories		38,220	9,568
Amortisation of intangible assets		75,542	40,230
Bank interest income		(45,469)	(31,093)
Depreciation of property, plant and equipment		479,217	329,176
Finance costs		323,399	146,842
Loss (gain) on fair value change on convertible bonds		34,246	(148,916)
Gain on disposal of property, plant and equipment		(1,588)	(2,338)
Impairment loss on intangible assets		9,948	3,213
Impairment loss on trade receivables		113,283	22,854
Loss on fair value change on derivative financial instrument		53,988	37,599
Gain on disposal of available-for-sale investments		(367)	—
Release of prepaid lease payments		10,630	7,036
Share of results of associates		(1,172)	(479)
Share of results of jointly controlled entities		(24,622)	(40,995)
Release of deferred income		(4,003)	(3,828)
Operating cash flows before movements in working capital		1,756,328	2,018,870
(Increase) decrease in inventories		(561,409)	170,963
Increase in trade and other receivables		(1,174,935)	(1,140,486)
(Increase) decrease in amounts due from/to associates		(14,758)	25,240
Increase in amount due from/to a jointly controlled entity		(12,384)	(19,152)
Increase in trade and other payables		152,691	739,946
Increase in warranty provision		22,868	38,458
Cash generated from operations		168,401	1,833,839
Income tax paid		(286,585)	(200,014)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(118,184)	1,633,825

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	NOTE	2011 RMB'000	2010 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,002,124)	(1,081,773)
Deposit paid for land lease		(39,200)	(380,458)
Increase in pledged bank deposits		(486,083)	(315,450)
Expenditure on intangible assets		(136,943)	(129,021)
Purchase of available-for-sale investments		(254,879)	(77,354)
Prepayment for acquisition of property, plant and equipment		(31,373)	(59,265)
Acquisitions of interests in associates		(128,150)	(43,545)
Acquisition of interest in a jointly controlled entity		(28,500)	—
Prepaid lease payments paid		(122,235)	(28,633)
Acquisitions of subsidiaries	39	(79,301)	38,546
Proceeds on disposal of available-for-sale investments		40,947	—
Interest received		45,469	31,093
Dividend received from a jointly controlled entity		25,000	—
Amount advanced to an associate		(16,588)	—
Decrease in restricted cash		—	5,106
Proceeds on disposal of property, plant and equipment		5,208	3,965
Government grants received		34,891	5,377
NET CASH USED IN INVESTING ACTIVITIES		(2,173,861)	(2,031,412)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2011

	2011 RMB'000	2010 RMB'000
FINANCING ACTIVITIES		
New bank borrowings raised	7,047,198	2,787,651
Gross proceeds on placement of shares	—	1,915,840
Proceeds from exercise of share options	1,334	—
Capital contribution by non-controlling shareholders	54,921	6,900
(Repayment to) advance from a related party	(1,435)	904
Repayment of bank borrowings	(2,705,442)	(2,182,764)
Dividend paid to owners of the Company	(374,918)	(327,427)
Dividend paid to a non-controlling shareholder of a subsidiary	(6,189)	—
Interest paid	(389,105)	(146,842)
Acquisition of additional interest in a subsidiary	(29,316)	(4,100)
Redemption of convertible bonds at maturity	(1,254,179)	—
NET CASH FROM FINANCING ACTIVITIES	2,342,869	2,050,162
NET INCREASE IN CASH AND CASH EQUIVALENTS	50,824	1,652,575
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	2,123,768	471,193
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	2,174,592	2,123,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2011

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 47, 20 and 21 respectively.

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.

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

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

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:

- 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.

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

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.

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.

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. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Total comprehensive income 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 (effective from 1 January 2010 onwards).

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in 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, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. Where certain assets of the subsidiary are measured 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 Company had directly disposed of the related assets (i. e. reclassified to profit or loss or transferred directly to retained earnings). 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less accumulated impairment losses.

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.

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 liabilities or assets 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 transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; 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)*

Business combinations *(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), or 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 as of that date.

The policy described above is applied to all business combinations that take place on or after 1 January 2010.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policies above) less any accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units (or groups of cash-generating units) that are 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, and whenever there is an 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 the carrying amount of the unit, 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 pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of comprehensive income. 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.

The Group's policy for goodwill arising on the acquisition of an associate is described below.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a jointly 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. Under the equity method, investments in associates are initially recognise in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of profit or losses and other comprehensive income of the associates. When the Group's share of losses of an associate equals or exceeds its 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 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.

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.

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 revenue can be measured reliably. Interest income from a financial asset 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each 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 at 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 on the settlement and retranslation of monetary items are recognised in profit or loss in the period in which they arise, except for exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings.

For the purposes of presenting 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 expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

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.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes 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.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their 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.

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 net disposal proceeds and the carrying amount of the asset is included in profit or loss.

Intangible assets

Intangible assets acquired separately

Intangible assets acquired separately and 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 provided 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

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 charged to 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).

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, measured at the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss in the period when the asset is derecognised.

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 provided on a straight-line basis over their estimated useful lives.

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss (if any).

When an impairment loss subsequently reverses, the carrying amount of the asset 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 in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

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.

The amount recognised as a provision is 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.

Provisions for the expected cost of warranty obligations under sale of goods are recognised at the date of sale of the relevant products, at the directors' best estimate of the expenditure required to settle the Group's obligation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 available-for-sale financial assets, and loans and receivables. 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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").

AFS financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss (see accounting policy on impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period (see accounting policy on impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, amounts due from associates/jointly controlled entities, pledged bank deposits, restricted cash, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of the 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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets (Continued)

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 (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade 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.

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.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities 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.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other liabilities.

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 stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the "other gains and losses" line item in the consolidated statement of comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Other financial liabilities

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

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 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.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date 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.

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 2011, the carrying amount of trade receivables is RMB4,530,186,000 (net of allowance for bad and doubtful debts of RMB181,555,000) (31 December 2010: carrying amount of RMB3,504,542,000, net of allowance for bad and doubtful debts of RMB71,955,000).

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 2011, the carrying amount of inventories is RMB1,799,018,000 (net of allowance for inventories of RMB87,421,000) (31 December 2010: carrying amount of RMB1,257,663,000, net of allowance for inventories of RMB49,201,000).

Useful lives of property, plant and equipment

The Group reviews the estimated useful lives 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 32 and convertible bonds disclosed in note 34, 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

	2011 RMB'000	2010 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**8,080,383**	6,583,159
Available-for-sale investments	**362,945**	148,646
Derivative financial instrument	**—**	18,392
Financial liabilities		
Amortised cost	**9,848,344**	5,339,629
Financial liabilities designated as at FVTPL		
– convertible bonds (see below)	**—**	1,219,933

6. FINANCIAL INSTRUMENTS *(Continued)*

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 and a related party, trade and other payables, pledged bank deposits, restricted cash, bank balances and cash, borrowings, convertible bonds and derivative financial instrument. 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.

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 mainly operates in the PRC with transactions substantially entered into in RMB. However, the Group exposed to currency risks which mainly arise from the foreign currency sales and purchases, bank balances and borrowings denominated in foreign currency. Approximately 16% of the Group's sales and 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 trade and other receivables, restricted cash, pledged bank deposits, bank balances and cash, trade and other payables, borrowings and derivative financial instrument at the end of the reporting period are as follows:

Assets

	2011 RMB'000	2010 RMB'000
Hong Kong Dollars (HKD)	1,199	183,613
United States Dollars (USD)	831,604	500,861
Euro (EUR)	37,502	191,226
Swiss Francs (CHF)	60	65
Japanese Yen (JPY)	4,765	10,593

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk *(Continued)*

Liabilities

	2011 RMB'000	2010 RMB'000
Hong Kong Dollars (HKD)	**851,466**	3,275
United States Dollars (USD)	**607,659**	10,619
Euro (EUR)	**77,196**	15,367
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% (2010: 5%) increase and decrease in RMB against the relevant foreign currencies. 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% change in foreign currency rates. A positive number below indicates an increase in post-tax profit where RMB strengthen 5% against the relevant foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit.

	2011 RMB'000	2010 RMB'000
HKD impact	**42,513**	(9,017)
USD impact	**(8,131)**	(21,316)
EUR impact	**1,979**	(8,405)

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, restricted cash, convertible bonds 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. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider necessary action when significant interest rate exposure is anticipated. 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, and 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.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate borrowings 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 increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2010: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by RMB17,563,000 (2010 decrease/increase by: RMB9,931,000).

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate borrowings.

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.

Equity price 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 (2010: nil), the Group's comprehensive income would increase/decrease by RMB38,232,000 (2010: nil) as a result of the changes in fair value of available-for-sale investments.

(iv) Other price risk

The Group is exposed to other price risk through its convertible bonds and derivative financial instruments. The management monitors closely the other price risk and will consider hedging the risk exposure should the need arise.

During the year, the Company redeemed the entire outstanding amount of the 2008 Convertible Bonds (as defined in note 34) and extinguished the derivative financial instruments arising from the Original and November 2009 Equity Swap (as defined in note 35). Accordingly the Group is not subject to any significant other price risk at 31 December 2011.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(iv) Other price risk *(Continued)*

Sensitivity analysis

The sensitivity analyses below applicable as at 31 December 2010 have been determined based on the exposure to the share price of the Company for convertible bonds and derivative financial instruments assuming all other variables were held constant at 31 December 2010.

If the prices of the respective equity instruments had been 5% higher/lower at 31 December 2010:

- profit for the year ended 31 December 2010 would decrease/increase by RMB1,100,000 as a result of the changes in fair value of convertible bonds; and
- profit for the year ended 31 December 2010 would increase/decrease by RMB6,300,000 as a result of the changes in fair value of derivative financial instrument.

In the management's opinion, the sensitivity analyses are unrepresentative of the inherent market risks as the pricing model used in the fair value valuation of the convertible bonds and derivative financial instrument which involves multiple variables are interdependent.

Credit risk

As at 31 December 2011, 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.

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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk *(Continued)*

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 2011, five customers engaged in the wind milling industry accounted for approximately 38% (2010: 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.

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 bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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. 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.

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	0 - 30 days	31 - 90 days	91 - 365 days	1 - 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
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 jointly controlled entities	—	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
2010							
Non-derivative financial liabilities							
Trade and other payables	—	168,465	1,306,306	603,745	—	2,078,516	2,078,516
Amount due to a jointly controlled entity	—	6,665	—	—	—	6,665	6,665
Amount due to a related party	—	1,435	—	—	—	1,435	1,435
Amounts due to associates	—	1,312	—	—	—	1,312	1,312
Borrowings	5.30	112,520	225,040	1,113,805	2,182,686	3,634,050	3,251,701
Convertible bonds	—	—	—	1,254,179	—	1,254,179	1,219,933
		290,397	1,531,346	2,971,729	2,182,686	6,976,157	6,559,562

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 value of convertible bonds and derivative financial instrument is determined using option pricing model. Major inputs are disclosed in notes 34 and 35; and
- the fair value of other financial assets and financial liabilities (excluding convertible bonds and derivative financial instrument) 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 3 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 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1		Level 3	
	2011 RMB'000	2010 RMB'000	**2011 RMB'000**	2010 RMB'000
Financial asset at FVTPL				
Derivative financial instrument	**—**	—	**—**	18,392
Financial liability at FVTPL				
Convertible bonds	**—**	—	**—**	1,219,933
Available-for-sale investments				
Equity securities listed in Hong Kong	**254,879**	—	**—**	—

There were no transfers between all Levels in both years.

6. FINANCIAL INSTRUMENTS *(Continued)*

6c. Fair value *(Continued)*

Reconciliation of Level 3 fair value measurement of financial assets and financial liability

	Convertible bonds RMB'000	Derivative financial instrument RMB'000
At 1 January 2010	(1,368,949)	55,991
(Loss) gains for the year recognised in profit or loss (Note)	148,916	(37,599)
Conversion of convertible bonds	100	—
At 31 December 2010	(1,219,933)	18,392
Loss for the year recognised in profit or loss (Note)	(34,246)	(53,988)
Redemption of convertible bonds on maturity	1,254,179	—
Settlement of November 2009 Equity Swap (as defined in note 35) on maturity	—	35,596
At 31 December 2011	—	—

Note:

Of the total gains and loss for the year included in profit or loss, loss of RMB34,246,000 and loss of RMB53,988,000 relates to convertible bonds and derivative financial instrument held during the year (2010: gain of RMB148,916,000 and loss of RMB37,599,000 relates to convertible bonds and derivative financial instrument) respectively. The total gains and loss are included in "other gains and losses" (Note 9).

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 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's 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 RMB'000	2010 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

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

	2011 RMB'000	2010 RMB'000
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 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 revenue and results *(Continued)*

	2011 RMB'000	2010 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.

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Other segment information

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	—	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

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Other segment information *(Continued)*

2010

	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	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

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Revenue from major product and services

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

	2011 RMB'000	2010 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.

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	
	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.

8. OTHER INCOME

	2011 RMB'000	2010 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). The details of the deferred income are set out in note 36.

9. OTHER GAINS AND LOSSES

	2011 RMB'000	2010 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

10. FINANCE COSTS

	2011 RMB'000	2010 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

11. TAXATION

	2011 RMB'000	2010 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 (note 25)	(14,303)	27,780
	147,488	256,543

11. TAXATION *(Continued)*

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.

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:

	2011 RMB'000	2010 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)
Under provision 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

Details of deferred taxation for the year are set out in note 25.

12. PROFIT FOR THE YEAR

	2011 RMB'000	2010 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors' emoluments (note 13)	866,837	532,600
Less: staff cost included in research and development costs	(26,342)	(17,629)
	840,495	514,971
Auditor's remuneration	3,092	3,038
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

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2011 RMB'000	2010 RMB'000
Directors		
– fee	360	360
– salaries and other allowances	20,929	19,529
– retirement benefit plan contributions	371	371
Total emoluments	21,660	20,260

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

	2011				2010			
	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	—	3,247	53	3,300	—	3,047	53	3,100
Chen Yongdao	—	2,947	53	3,000	—	2,747	53	2,800
Lu Xun	—	2,947	53	3,000	—	2,747	53	2,800
Li Shengqiang	—	2,947	53	3,000	—	2,747	53	2,800
Liu Jianguo	—	2,947	53	3,000	—	2,747	53	2,800
Liao Enrong	—	2,947	53	3,000	—	2,747	53	2,800
Jin Maoji (Appointed on 7 May 2010)	—	2,947	53	3,000	—	2,747	53	2,800
Chen Shimin	120	—	—	120	120	—	—	120
Zhu Junsheng	120	—	—	120	120	—	—	120
Jiang Xihe	120	—	—	120	120	—	—	120
Zhang Wei (Resigned on 7 May 2010)	—	—	—	—	—	—	—	—
	360	20,929	371	21,660	360	19,529	371	20,260

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 2011 and 2010, 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

	2011 RMB'000	2010 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).

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:

	2011 RMB'000	2010 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 '000	2010 '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.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Fixture and equipment	Transportation equipment	Construction in progress	Leasehold improvements	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2010	655,755	2,311,843	107,794	139,619	1,223,665	1,050	6,693	4,446,419
Additions	—	17,013	4,898	11,119	1,216,632	39	351	1,250,052
On acquisition of subsidiaries	68,653	33,776	1,364	1,010	773	—	253	105,829
Transfer	350,932	904,097	25,679	61,842	(1,342,623)	73	—	—
Disposals	—	(4,924)	(2,763)	(1,358)	—	—	—	(9,045)
At 31 December 2010	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
DEPRECIATION								
At 1 January 2010	53,291	439,358	48,969	53,693	—	1,050	5,372	601,733
Provided for the year	27,225	251,071	17,836	32,272	—	112	660	329,176
Eliminated on disposals	—	(3,571)	(2,614)	(1,233)	—	—	—	(7,418)
At 31 December 2010	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
CARRYING VALUES								
At 31 December 2011	1,123,570	2,612,173	76,552	109,902	1,663,783	—	2,910	5,588,890
At 31 December 2010	994,824	2,574,947	72,781	127,500	1,098,447	—	1,265	4,869,764

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

The Group is in the process of obtaining property certificates for the buildings above with carrying amount of RMB706,785,000 (2010: RMB639,881,000) at the end of reporting period.

The above items of property, plant and equipment other than 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 and 3 years
Software	20%

17. PREPAID LEASE PAYMENTS

	2011 RMB'000	2010 RMB'000
Medium-term land use rights in the PRC	**622,683**	407,858
Analysed for reporting purpose as:		
Current assets	**13,321**	8,554
Non-current assets	**609,362**	399,304
	622,683	407,858

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 RMB238,279,000 (2010: RMB233,660,000), and the Group is in the process of obtaining these land use rights certificates.

18. GOODWILL

	2011 RMB'000	2010 RMB'000
COST AND CARRYING VALUES		
At 1 January	**17,715**	12,091
Arising on acquisition of subsidiaries	**—**	5,624
At 31 December	**17,715**	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 2011 & 2010 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 6.56%, 6.56% and 6.56% for Unit A, Unit B and Unit C, respectively (2010: 6.1%, 6.1% and 6.1% 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 2010	161,141	—	161,141
Additions	129,021	—	129,021
On acquisition of subsidiaries	3,387	—	3,387
At 31 December 2010	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
AMORTISATION AND IMPAIRMENT			
At 1 January 2010	53,536	—	53,536
Charge for the year	40,230	—	40,230
Impairment loss recognised for the year	3,213	—	3,213
At 31 December 2010	96,979	—	96,979
Charge for the year	72,043	3,499	75,542
Impairment loss recognised for the year	9,948	—	9,948
At 31 December 2011	178,970	3,499	182,469
CARRYING VALUES			
At 31 December 2011	235,639	35,664	271,303
At 31 December 2010	196,570	—	196,570

The above intangible assets have finite useful lives, over which the assets are amortised. The amortisation period for development costs incurred for the Group's self-developed new products and technical know-how are both 5 years. During the year ended 31 December 2011, an impairment loss of approximately RMB9,948,000 (2010: RMB3,213,000) was recognised due to insufficient sales order for these development projects.

20. INTERESTS IN ASSOCIATES

	2011 RMB'000	2010 RMB'000
Cost of unlisted investments in associates	185,845	57,695
Share of post-acquisition results	221	(951)
	186,066	56,744

At 31 December 2011, included in the cost of investments in associates is goodwill of RMB11,491,000 (2010: RMB10,022,000) arising on acquisitions of associates in the year 2011 and 2010. There is no unrecognised share of losses in associates on 31 December 2010 and 2011.

As at 31 December 2011 and 2010, 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 2011	2010	Principal activity
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
			2011	2010	
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") (Note 1)	PRC equity joint venture	PRC	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%	—	Manufacture and sales of LED material
蘇州晟創投資企業 Suzhou Shengchuang Investment Fund ("Shengchuang ") (Note 2)	PRC limited partnership	PRC	24.79%	—	Investment management

Note:

(1) During the year, the Group invests in 49.58% of Nantong FLW, which is an associate of the Group at 31 December 2011 and is owned as to 20.04% by南京聯欣創業投資有限公司Nanjing Lianxin Venture Capital Co., Ltd. ("Lianxin"). Lianxin is a company established in the PRC and is controlled by certain individual shareholders of the Company.

(2) Shengchuang is a limited partnership with subscribed capital.

20. INTERESTS IN ASSOCIATES *(Continued)*

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

	2011 RMB'000	2010 RMB'000
Total assets	**751,110**	301,883
Total liabilities	**(324,554)**	(146,692)
Net assets	**426,556**	155,191
Group's share of net assets of associates	**174,575**	46,722
Revenue	**566,934**	117,091
Loss for the year	**(2,079)**	(876)
Group's share of results of associates for the year	**1,172**	479

21. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2011 RMB'000	2010 RMB'000
Cost of unlisted investments in jointly controlled entities	587,120	558,620
Share of post-acquisition results, net of dividend received	65,164	65,542
	652,284	624,162

At 31 December 2011, included in the cost of investment in jointly controlled entities is goodwill of RMB17,920,000 (2010: RMB17,920,000) arising on acquisition of a jointly controlled entity in prior years.

As at 31 December 2011 and 2010, 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
			2011	2010	
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% (Note)	50.01%	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%	—	Manufacture and sales of heavy duty equipment

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

Note: The Group holds 50.01% of the registered capital of Jiangsu Hongsheng and controls 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.

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:

	2011 RMB'000	2010 RMB'000
Current assets	**859,840**	564,704
Non-current assets	**501,456**	571,814
Current liabilities	**629,130**	436,241
Non-current liabilities	**79,882**	94,035
Income recognised in profit or loss	**768,616**	782,895
Expenses recognised in profit or loss	**743,994**	741,900

22. AVAILABLE-FOR-SALE INVESTMENTS

		2011 RMB'000	2010 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, 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 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.

(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

	2011 RMB'000	2010 RMB'000
Deposit for land lease	400,000	380,458

The amount represents deposit for land lease with total consideration of approximately RMB709 million (2010: RMB390 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.

24. PREPAYMENT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

	2011 RMB'000	2010 RMB'000
Prepayment for acquisition of property plant and equipment	**31,373**	59,265

For prepayment for acquisition of property, plant and equipment, capital commitment of the remaining payment was disclosed in note 40.

25. 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	Others RMB'000	Total RMB'000
At 1 January 2010	(6,674)	(5,271)	18,856	29,895	(15,150)	—	—	21,656
Charge (credit) to profit or loss	(5,635)	(4,964)	18,415	19,000	964	—	—	27,780
At 31 December 2010	(12,309)	(10,235)	37,271	48,895	(14,186)	—	—	49,436
Charge (credit) 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

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.

25. DEFERRED TAX *(Continued)*

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

	2011 RMB'000	2010 RMB'000
Deferred tax assets	(27,933)	(36,730)
Deferred tax liabilities	63,066	86,166
	35,133	49,436

At 31 December 2011, the Group has unused tax losses of RMB100,632,000 (2010: RMB3,566,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unused tax losses that 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. 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.

There was no other significant unprovided deferred taxation for the year or at the end of the reporting period.

26. INVENTORIES

	2011 RMB'000	2010 RMB'000
Raw materials	445,156	449,212
Work in progress	589,345	407,327
Finished goods	764,517	401,124
	1,799,018	1,257,663

27. TRADE AND OTHER RECEIVABLES

	2011 RMB'000	2010 RMB'000
Accounts receivable (note)	3,086,721	1,953,787
Bills receivable discounted to banks (note 32)	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 RMB'000	2010 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.

27. TRADE AND OTHER RECEIVABLES *(Continued)*

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 RMB'000	2010 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 RMB'000	2010 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 32) is RMB841,377,000 (2010: RMB349,077,000).

28. AMOUNTS DUE FROM/TO ASSOCIATES

	2011 RMB'000	2010 RMB'000
Amounts due from:		
Nanjing Longwin	13,632	—
Nanjing E-crystal	16,588	—
Nanjing Changyuan	211	—
	30,431	—
Amounts due to:		
Nanjing Longwin	—	1,112
Jiangsu Boming	397	200
	397	1,312

The amounts due from associates relate to trade balance with Nanjing Longwin and Nanjing Changyuan, and advance made to Nanjing E-crystal. The amounts are aged within 120 days. The amounts are unsecured, interest-free and repayable within 180 days.

The amounts due to associates relate to trade balance with Jiangsu Boming, and aged within 120 days. The amounts are unsecured, interest-free and repayable within 180 days.

29. AMOUNT DUE FROM/TO A JOINTLY CONTROLLED ENTITY

	2011 RMB'000	2010 RMB'000
Amount due from:		
Jiangsu Hongsheng	26,744	9,339
Amount due to:		
Nanjing Construction	11,686	6,665

The amount due from a jointly controlled entity relate to trade balances with Jiangsu Hongsheng, and aged within 120 days. The amount is unsecured, interest-free and repayable within 180 days.

The amount due to a jointly controlled entity relate to trade balances with Nanjing Construction, and aged within 120 days. The amount is unsecured, interest-free and repayable within 180 days.

30. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances carry interest at prevailing market deposit rates which range from 0.01% to 0.5% (2010: 0.01% to 0.36%) per annum. The pledged bank deposits carry fixed interest rate of 3.3% (2010: 2.5%) per annum.

31. TRADE AND OTHER PAYABLES

	2011 RMB'000	2010 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, details of which are set out in note 30.

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

	2011 RMB'000	2010 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.

32. BORROWINGS

	2011 RMB'000	2010 RMB'000
Bank loans	**6,777,080**	2,902,624
Bills discounted with recourse (note 27)	**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 HIBOR and the LIBOR.

32. BORROWINGS *(Continued)*

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

	2011 RMB'000	2010 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, EUR6,059,000, 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 41.

33. WARRANTY PROVISION

	1.1.2011	Accrual	Utilisation	31.12.2011
	RMB'000	RMB'000	RMB'000	RMB'000
Warranty provision	58,393	67,958	(45,090)	81,261

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. The amount of warranty provision at 31 December 2010 was previously disclosed under trade and other payables, which has been reclassified and separately disclosed as warranty provision in order to conform with the current year's presentation. In addition, the amount of warranty expense of RMB 86,204,000 for the year ended 31 December 2010 included under distribution and selling costs has been reclassified as cost of sales in order to conform with the current year's presentation.

34. 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.

34. 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 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 were 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%

35. DERIVATIVE FINANCIAL INSTRUMENT/RESTRICTED CASH

Concurrent with the issuance of the 2008 Convertible Bonds as disclosed in note 34, 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.

35. DERIVATIVE FINANCIAL INSTRUMENT/RESTRICTED CASH *(Continued)*

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%

36. 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 will be released to income over the useful lives of the relevant assets.

37. 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 35, 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.

38. 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.

38. 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 1.1.2010 and 31.12.2010	Exercised during the year	Outstanding and exercisable at 31.12.2011
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.

The weighted average share price at the time of exercise was HKD 10.97 per share.

The fair value was calculated using the Binomial Option pricing model. The inputs into the model were as follows:

	6 November 2008
Closing share price at date of grant	HKD5.60
Exercise price	HKD5.60
Expected volatility	57.99%
Expected life	5 years
Risk-free rate	1.79%
Expected dividend yield	1.43%
Fair value per option	HKD2.5025

Expected volatility was determined by using the historical volatility of the Company's share price over the previous trading days which equivalent to the assumed life of the share option. The expected life used in the model has been estimated, based on management's best estimate for the effects of non transferability, exercise restrictions and behavioural considerations.

The Binomial Option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

39. 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 南京奥能鍋爐有限公司 AE&E Nanjing Boiler Company Limited ("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 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., 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.

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

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

	Global Group RMB'000	Jiangsu E-lite RMB'000	Total 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.

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.

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

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

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)

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. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

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 11) 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 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 acquisition method of accounting.

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2010 *(Continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	Sky Electronic RMB'000	Nanjing Marine Propulsion RMB'000	Nantong Diesel RMB'000	Total RMB'000
Property, plant and equipment	6,810	6,826	92,193	105,829
Available-for-sale investments	227	—	10,715	10,942
Prepaid lease payments	—	—	2,351	2,351
Intangible assets	—	—	3,387	3,387
Inventories	10,828	17,191	97,365	125,384
Trade and other receivables	16,260	675	62,977	79,912
Bank balances and cash	1,927	15,260	190,479	207,666
Trade and other payables	(13,629)	(16,213)	(169,420)	(199,262)
Tax liabilities	(4,821)	—	—	(4,821)
Borrowings	—	—	(78,500)	(78,500)
	17,602	23,739	211,547	252,888

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB79,912,000 had gross contractual amounts of RMB82,074,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RMB2,162,000.

Non-controlling interests

The non-controlling interests in Sky Electronic and Nantong Diesel respectively recognised at the acquisition date were measured at the proportionate share of the fair value of the corresponding net identifiable assets of Sky Electronic and Nantong Diesel at the acquisition date.

39. ACQUISITION OF SUBSIDIARIES *(Continued)*

For the year ended 31 December 2010 *(Continued)*

Goodwill arising on acquisition

	Sky Electronic RMB'000	Nanjing Marine Propulsion RMB'000	Nantong Diesel RMB'000	Total RMB'000
Consideration transferred	13,200	13,920	142,000	169,120
Plus:Non-controlling interests	7,393	—	72,180	79,573
Fair value of interests in associates previously held	—	9,819	—	9,819
Less:Fair value of identifiable net assets acquired	(17,602)	(23,739)	(211,547)	(252,888)
Goodwill arising on acquisition	2,991	—	2,633	5,624

Goodwill arose on the acquisition of Sky Electronic and Nantong Diesel because the acquisition included the assemble workforce of Sky Electronic and Nantong Diesel and some potential contracts which are still under negotiation with prospective new customers as at acquisition date. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contracts.

None of the goodwill on this acquisition is expected to be deductible for tax purposes.

Net cash outflow (inflow) on acquisition of subsidiaries

	Sky Electronic RMB'000	Nanjing Marine Propulsion RMB'000	Nantong Diesel RMB'000	Total RMB'000
Cash consideration paid	13,200	13,920	142,000	169,120
Less: cash and cash equivalent balances acquired	(1,927)	(15,260)	(190,479)	(207,666)
	11,273	(1,340)	(48,479)	(38,546)

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.

40. CAPITAL COMMITMENTS

	2011 RMB'000	2010 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

41. 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 RMB'000	2010 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

42. OPERATING LEASES

Minimum lease payments paid under operating leases during the year:

	2011 RMB'000	2010 RMB'000
Leasehold land and office premises	4,797	2,899

42. OPERATING LEASES *(Continued)*

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

	2011 RMB'000	2010 RMB'000
Within one year	3,319	3,470
In the second to fifth year inclusive	6,393	8,282
After five years	—	492
	9,712	12,244

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.

43. 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 RMB99,245,000 (2010: RMB92,706,000). All the contributions had been paid over to these schemes as at the end of the reporting period.

44. 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 35, 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.

45. RELATED PARTY DISCLOSURES

During the year, other than those disclosed in notes 13, 20, 21, 28, and 29 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	2011 RMB'000	2010 RMB'000
Nanjing Longwin	Associate	Purchase of goods	68,438	79,784
		Disposal of property, plant and equipment	985	—
Nanjing Marine Propulsion (Note)	Associate	Sales of goods	—	11,167
Nanjing E-crystal	Associate	Disposal of property, plant and equipment	492	—
		Rental income	860	—
Jiangsu Hongsheng	Jointly controlled entity	Sales of goods	89,502	44,664
		Purchase of goods	24,026	34,649
Nanjing Construction	Jointly controlled entity	Sales of goods	84,517	100,206
		Purchase of goods	259	13,658
		Rental income	384	—
Shandong Heavy Duty	Jointly controlled entity	Sales of goods	6,797	—
Nanjing Yuhuatai District Saihong Bridge Office 南京雨花臺賽虹橋街道辦事處	Holding company of a non-controlling shareholder of a subsidiary	Rental expenses	1,476	1,435

Note: Nanjing Marine Propulsion, a former associate, became a subsidiary of the Company on 30 November 2010. The amount represents the transactions between the Group and Nanjing Marine Propulsion prior to 30 November 2010.

45. 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.

46. FINANCIAL INFORMATION OF THE COMPANY

	2011 RMB'000	2010 RMB'000
Assets		
Investments in subsidiaries and amounts due from subsidiaries	4,352,316	4,866,173
Fixture and equipment	107	173
Available-for-sale investments	254,879	—
Derivative financial instrument	—	18,392
Other receivables	13,844	391
Restricted cash	—	146,798
Bank balances and cash	9,420	161,407
	4,630,566	5,193,334
Liabilities		
Other payables	10,767	3,275
Amounts due to subsidiaries	1,721	1,312
Borrowings	955,200	—
Financial liabilities designated as at fair value through profit or loss - convertible bonds	—	1,219,933
	967,688	1,224,520
	3,662,878	3,968,814
Capital and reserves		
Share capital	102,543	103,345
Reserves	3,560,335	3,865,469
	3,662,878	3,968,814

47. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2011 and 2010 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		
			2011 %	2010 %	2011 %	2010 %	
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 Speed & Accurate Gear (Group) Co., Ltd. (3) 南京高精齒輪集團有限公司	PRC 16 August 2001	RMB553,500,000	—	—	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

47. 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		
			2011 %	2010 %	2011 %	2010 %	
Nanjing Yongte Gear Box Manufacturing Co., Ltd. (2) 南京永特齒輪箱製造有限公司	PRC 30 July 1990	RMB70,000,000	–	–	100	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
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

47. 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		
			2011 %	2010 %	2011 %	2010 %	
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. (2) 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
Nantong Diesel Engine Co., Ltd. (2) 南通柴油機股份有限公司	PRC 27 November 1993	RMB215,558,350	—	—	85.19	66.78	Manufacture and sales of diesel engines

47. 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		
			2011 %	2010 %	2011 %	2010 %	
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	100	Manufacture and sales of heavy duty machine tools
Zhong-Chuan Heavy Duty Machine Tool (Nanjing) Corporation Ltd. (2) (4) (6) 中傳重型機床南京有限公司	PRC 26 October 2011	RMB200,000,000	—	—	100	—	Manufacture and sales of machine tools
Zhong-Chuan Heavy Duty Equipment Co., Ltd. (2) (4) (6) 中傳重型裝備有限公司	PRC 28 February 2011	RMB200,000,000	—	—	60	—	Manufacture and sales of heavy duty equipment
Nanjing Jiuyi Heavy Duty Gear Box Manufacturing Co., Ltd. (2) (4) (6) 南京九一重型齒輪製造有限公司	PRC 27 July 2011	RMB150,000,000	—	—	100	—	Manufacture and sales of gear

47. 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 Direct 2011 %	Direct 2010 %	Indirect 2011 %	Indirect 2010 %	Principal activities
Shenyang Ming Shenghang Enterprise Management Consultancy Co., Ltd. (2) (4) 瀋陽明聖航企業管理諮詢有限公司	PRC 15 April 2011	RMB500,000	—	—	100	—	Provision of consulting service
Nanjing High Accurate Drive Equipment Manufacture Group Electromechanical Development Co., Ltd. (2) (4) 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	—	Provision of after sale services
AE&E Nanjing Boiler Co., Ltd. (3) (5) 南京奧能鍋爐有限公司	PRC 25 January 1991	RMB128,824,800	—	—	90	—	Manufacture and sales of boiler
Nanjing E-lite Semiconductors Co., Ltd. (2) (4) 南京晶瑞半導體有限公司	PRC 2 November 2011	RMB83,300,000	—	—	60.02	—	Manufacture and sales of LED products
Jiangsu E-lite Semiconductors Co., Ltd. (2) (5) 江蘇晶瑞半導體有限公司	PRC 3 September 2010	RMB60,000,000	—	—	63	—	Manufacture and sales of LED products
Anhui High Drive New Energy Developments Co., Ltd. (2) (4) 安徽高傳新能源開發有限公司	PRC 28 December 2011	RMB3,000,0000	—	—	100	—	R&D and investment of wind power generation

47. 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 Direct 2011 %	Direct 2010 %	Indirect 2011 %	Indirect 2010 %	Principal activities
Jaingsu New Best Zhong-Chuan Technology Co., Ltd. (2)(4)(6) 江蘇新貝斯特中傳科技有限公司	PRC 27 December 2011	RMB200,000,000	—	—	63	—	Manufacture and sales of machine tools
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
NGC Transmission Equipment (America) Inc.	USA 7 August 2008	USD1,500,000	—	—	100	100	Sales of gear and fittings
NGC Marine Propulsion Southeast Asia Pte. Ltd.(4)	Singapore 15 March 2011	USD400,000	—	—	51	—	Sales of gear and fittings
Global Power Asia Limited (5)	Hong Kong 8 June 2004	HKD84,645,632	—	—	100	—	Investment holding

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

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) These subsidiaries are acquired during the year, details of which are set out in note 39.

(6) As at 31 December 2011, 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., and Jaingsu New Best Zhong-Chuan Technology Co., Ltd. is paid up to RMB 40,000,000, RMB 59,080,000, RMB 30,000,000, and RMB 40,000,000, respectively. The registered capital of all other subsidiaries established in the PRC is fully paid up as at 31 December 2011.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

48. 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.

FINANCIAL SUMMARY

	Year ended 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
RESULTS					
Revenue	1,904,816	3,439,220	5,647,045	7,392,649	**7,120,712**
Profit for the year	306,444	692,652	965,778	1,393,458	**547,588**

	As at 31 December				
	2007 RMB'000	2008 RMB'000	2009 RMB'000	2010 RMB'000	**2011** **RMB'000**
ASSETS AND LIABILITIES					
Total assets	4,785,580	8,477,856	10,234,919	14,931,515	**18,400,984**
Total liabilities	(1,677,713)	(4,743,211)	(5,784,567)	(7,417,174)	**(10,778,949)**
	3,107,867	3,734,645	4,450,352	7,514,341	**7,622,035**
Attributable to:					
Equity owners of the Company	3,104,545	3,731,086	4,420,937	7,392,730	**7,472,581**
Non-controlling interests	3,322	3,559	29,415	121,611	**149,454**
	3,107,867	3,734,645	4,450,352	7,514,341	**7,622,035**