中國高速傳動設備集團有限公司*

China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock code: 658)

ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2010

PERFORMANCE HIGHLIGHTS

Revenue for 2010 was approximately RMB7,392,649,000, representing an increase of 30.9% as compared with last year.

Profit attributable to owners of the Company as shown in the accounts for the year 2010 was approximately RMB1,383,635,000, representing an increase of 43.2% 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 2010 was approximately RMB1,272,318,000, representing an increase of 15.0% as compared with last year.

Basic and diluted earnings per share amounted to RMB1.08 and RMB0.91 respectively.

The Board recommended payment of a final dividend of HK33 cents per share for the year ended 31 December 2010.

The board of directors (the "Board") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2010 together with comparative figures as follows. The consolidated annual results have been reviewed by the Company's audit committee.

* *For identification purpose only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2010

	NOTES	**2010** *RMB'000*	**2009** *RMB'000*
Revenue	3	7,392,649	5,647,045
Cost of sales		(5,093,801)	(3,785,804)
Gross profit		2,298,848	1,861,241
Other income	4a	200,185	105,369
Other gains and loss	4b	111,317	(139,778)
Distribution and selling costs		(287,156)	(139,174)
Administrative expenses		(460,049)	(318,036)
Research and development costs		(50,476)	(70,359)
Other expenses		(57,300)	(48,939)
Finance costs	5	(146,842)	(99,832)
Share of results of associates		479	1,904
Share of results of jointly controlled entities		40,995	13,655
Profit before taxation		1,650,001	1,166,051
Taxation	6	(256,543)	(200,273)
Profit for the year	7	1,393,458	965,778
Other comprehensive (expense) income			
Exchange difference arising on translation		(355)	(3)
Gain on fair value change of available-for-sale investments		—	4,881
Deferred tax liability arising on fair value change of available-for-sale investments		—	(878)
Reclassification adjustment:			
- Release of deferred tax liability upon disposal of available-for-sale investments		—	1,338
- Release on disposal of available-for-sale investments		—	(8,480)
Other comprehensive expense for the year		(355)	(3,142)
Total comprehensive income for the year		1,393,103	962,636
Profit (loss) for the year attributable to:			
Owners of the Company		1,383,635	966,377
Non-controlling interests		9,823	(599)
		1,393,458	965,778
Total comprehensive income (expense) attributable to:			
Owners of the Company		1,383,280	963,235
Non-controlling interests		9,823	(599)
		1,393,103	962,636
Earnings per share	9		
Basic (RMB)		1.08	0.78
Diluted (RMB)		0.91	0.77

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2010

	NOTES	**2010**	**2009**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		4,869,764	3,844,686
Prepaid lease payments		399,304	270,826
Goodwill		17,715	12,091
Intangible assets		196,570	107,605
Interests in associates		56,744	20,389
Interests in jointly controlled entities		624,162	583,167
Available-for-sale investments		148,646	62,500
Deposit for land lease		380,458	107,300
Prepayment for acquisition of property, plant and equipment		59,265	105,911
Deferred tax assets		36,730	27,095
Derivative financial instrument	14	—	55,991
		6,789,358	5,197,561
CURRENT ASSETS			
Inventories		1,257,663	1,312,810
Prepaid lease payments		8,554	5,784
Trade and other receivables	10	3,810,804	2,613,260
Amount due from an associate		—	23,928
Amount due from a jointly controlled entity		9,339	7,090
Pledged bank deposits		766,839	451,389
Derivative financial instrument	14	18,392	—
Restricted cash	14	146,798	151,904
Bank balances and cash		2,123,768	471,193
		8,142,157	5,037,358
CURRENT LIABILITIES			
Trade and other payables	11	2,612,631	1,566,058
Amount due to a related party		1,435	531
Amounts due to associates		1,312	—
Amount due to a jointly controlled entity		6,665	23,568
Tax liabilities		175,259	141,689
Borrowings - due within one year	12	1,208,651	1,556,273
Financial liabilities designated as at fair value through profit or loss - convertible bonds - due within one year	13	1,219,933	—
		5,225,886	3,288,119
NET CURRENT ASSETS		2,916,271	1,749,239
TOTAL ASSETS LESS CURRENT LIABILITIES		9,705,629	6,946,800

	NOTES	2010	2009
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	2,043,050	1,012,041
Deferred tax liabilities		86,166	48,751
Financial liabilities designated as at fair value through profit or loss - convertible bonds - due after one year	13	—	1,368,949
Deferred income		62,072	66,707
		2,191,288	2,496,448
		7,514,341	4,450,352
CAPITAL AND RESERVES			
Share capital	15	103,345	94,633
Reserves		7,289,385	4,326,304
Equity attributable to owners of the Company		7,392,730	4,420,937
Non-controlling interests		121,611	29,415
		7,514,341	4,450,352

NOTES

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4 July 2007.

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

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

New and revised Standards and Interpretations applied in the current year

In the current year, the Group has applied the following new and revised Standards and Interpretations ("new and revised IFRSs").

IFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
IFRS 3 (as revised in 2008)	Business Combinations
IAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
IAS 39 (Amendments)	Eligible Hedged Items
IFRSs (Amendments)	Improvements to IFRSs issued in 2009
IFRSs (Amendments)	Amendments to IFRS 5 as part of Improvements to IFRSs issued in 2008
IFRIC 17	Distributions of Non-cash Assets to Owners

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

IFRS 3 (as revised in 2008) Business Combinations

IFRS 3 (as revised in 2008) has been applied in the current year prospectively to business combinations of which the acquisition date is on or after 1 January 2010 in accordance with the relevant transitional provisions. Its application has affected the accounting for business combinations in the current year.

- IFRS 3 (as revised in 2008) allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests at the date of acquisition (previously referred to as "minority" interests) either at fair value or at the non-controlling interests' share of recognised identifiable net assets of the acquiree. In the current year, in accounting for the acquisition of Si Kai Electronics Limited ("Si Kai"), Nanjing High Accurate Marine Propulsion Co., Ltd. ("Nanjing Marine Propulsion") and Nantong Diesel Engine Co., Ltd.

(“Nantong” together with Si Kai, Nanjing Marine Propulsion, collectively referred to as the “Acquired Subsidiaries”), the Group has elected to measure the non-controlling interests at the proportionate share of the acquirees’ net identifiable assets at the date of acquisition.

- IFRS 3 (as revised in 2008) changes the recognition and subsequent accounting requirements for contingent consideration. Previously contingent consideration was recognised at the acquisition date only if payment of the contingent consideration was probable and it could be measured reliably; any subsequent adjustments to the contingent consideration were always made against the cost of the acquisition. Under the revised Standard, contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognised against the cost of acquisition only to the extent that they arise from new information obtained within the measurement period (a maximum of 12 months from the acquisition date) about the fair value at the acquisition date. All other subsequent adjustments to contingent consideration classified as an asset or a liability are recognised in profit or loss.

- IFRS 3 (as revised in 2008) requires acquisition-related costs to be accounted for separately from the business combination, generally leading to those costs being recognised as an expense in profit or loss as incurred, whereas previously they were accounted for as part of the cost of the acquisition.

In the current year, the application of IFRS 3 (as revised in 2008) has affected the accounting for the acquisition of the Acquired Subsidiaries and resulted in a reduction in goodwill recognised in the consolidated statement of financial position of RMB245,000 and a corresponding decrease in profit for the year in the consolidated statement of comprehensive income arising on the recognition of acquisition-related costs when incurred as a result of the application of IFRS 3 (as revised in 2008). The effect on the Group’s basic and diluted earnings per share for the current year is insignificant.

Amendments to IAS 17 Leases

As part of *Improvements to IFRSs* issued in 2009, IAS 17 *Leases* has been amended in relation to the classification of leasehold land. Before the amendments to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the consolidated statement of financial position. The amendments to IAS 17 have removed such a requirement. The amendments require that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendments to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on the information that existed at the inception of the leases and determined that the amendment has no material impact on the consolidated financial statements.

New and revised Standards and Interpretations issued but not yet effective

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

IFRSs (Amendments)	Improvements to IFRSs issued in 2010[1]
IFRS 7 (Amendments)	Disclosures - Transfers of Financial Assets[3]
IFRS 9	Financial Instruments[4]
IAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets[5]
IAS 24 (as revised in 2009)	Related Party Disclosures[6]
IAS 32 (Amendments)	Classification of Rights Issues[7]
IFRIC 14 (Amendments)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[2]

[1] Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate.
[2] Effective for annual periods beginning on or after 1 July 2010.
[3] Effective for annual periods beginning on or after 1 July 2011.
[4] Effective for annual periods beginning on or after 1 January 2013.
[5] Effective for annual periods beginning on or after 1 January 2012.
[6] Effective for annual periods beginning on or after 1 January 2011.
[7] Effective for annual periods beginning on or after 1 February 2010.

IFRS 9 *Financial Instruments* (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 *Financial Instruments* (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

- Under IFRS 9, all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at either 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 accounting periods.

- In relation to financial liabilities, the 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 presentation 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 2013, with earlier application permitted.

The directors anticipate that IFRS 9 that will be adopted in the Group's consolidated financial statements for financial year ending 31 December 2013 and that the application of the new Standard may not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The directors of the Company anticipate that the application of other new and revised IFRSs will have no material impact on the consolidated financial statements.

3. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the amounts received and receivable for goods sold, net of sales taxes and return. The Group's operation is the production 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 PRC and Europe (mainly Italy) are two major operating segments reviewed by the CODM while the remaining market locations are grouped together to report to CODM for analysis.

Segment revenue and results

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

	2010	**2009**
	RMB'000	*RMB'000*
Revenue		
- PRC	6,526,235	4,808,948
- Europe	231,242	540,139
- Others	635,172	297,958
	7,392,649	5,647,045
Segment profit		
- PRC	1,894,730	1,506,502
- Europe	66,882	178,027
- Others	183,709	98,206
	2,145,321	1,782,735
Other income, gains and losses	177,873	(95,077)
Finance costs	(146,842)	(99,832)
Share of results of associates	479	1,904
Share of results of jointly controlled entities	40,995	13,655
Unallocated expenses	(567,825)	(437,334)
Profit before taxation	1,650,001	1,166,051

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

Segment assets

	2010	**2009**
	RMB'000	*RMB'000*
Segment assets		
- PRC	3,364,349	1,930,710
- Europe	32,171	15,821
- Others	108,022	320,660
Total segment assets	3,504,542	2,267,191
Unallocated assets	11,426,973	7,967,728
Consolidated total assets	14,931,515	10,234,919

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

Other segment information

2010

	PRC *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	299	822	—	9,568
Depreciation of property, plant and equipment	256,565	9,092	24,974	—	290,631

Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:

Depreciation of property, plant and equipment	256,565	9,092	24,974	38,545	329,176
Impairment loss on trade receivables	8,468	7,065	7,321	—	22,854
Impairment loss on intangible assets	3,213	—	—	—	3,213

2009

	PRC *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	17,017	1,843	1,016	—	19,876
Depreciation of property, plant and equipment	141,409	15,883	8,762	—	166,054

Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:

Depreciation of property, plant and equipment	141,409	15,883	8,762	27,443	193,497
Impairment loss on trade receivables	13,178	168	2,129	—	15,475
Impairment loss on intangible assets	1,416	—	—	—	1,416

Revenue from major product and services

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

	Year ended 31.12.2010	31.12.2009
	RMB'000	*RMB'000*
High-speed Heavy-load Gear Transmission Equipment	24,798	29,049
Gear Transmission Equipment for Construction Materials	668,452	794,200
General Purpose Gear Transmission Equipment	144,740	143,271
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	550,743	467,721
Wind Gear Transmission Equipment	5,457,532	3,805,074
Marine Gear Transmission Equipment	234,253	209,579
Transmission Equipment for High-speed locomotives and Urban Light Rails	36,310	14,279
Computer Numerical Controlled Products	46,081	—
Others	229,740	183,872
	7,392,649	5,647,045

Geographical information

The Group's non-current assets of RMB6,603,982,000 (2009: RMB5,051,975,000) are located in the PRC at the end of the reporting period.

Information about major customers

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

	Year ended 31.12.2010	31.12.2009
	RMB'000	*RMB'000*
Customer A[1]	1,257,611	878,374
Customer B[1]	843,714	717,491
Customer C[1]	746,473	N/A[2]

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

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

4a. OTHER INCOME

	2010	2009
	RMB'000	*RMB'000*
Bank interest income	31,093	26,228
Interest on available-for-sale investments	—	3
Government grants (Note)	31,749	14,739
Sales of scrap materials	101,880	45,929
Gain on disposal of property, plant and equipment	2,338	—
Gain on disposal of available-for-sale investments	—	8,480
Others	33,125	9,990
	200,185	105,369

Note: The amount includes amortisation of deferred income of RMB3,828,000 (2009: RMB4,098,000).

4b. OTHER GAINS AND LOSS

	2010	2009
	RMB'000	*RMB'000*
(Loss) gain on derivative financial instrument	(37,599)	298,604
Gain (loss) on fair value change on convertible bonds	148,916	(438,382)
	111,317	(139,778)

5. FINANCE COSTS

	2010	2009
	RMB'000	*RMB'000*
Interests on bank borrowings wholly repayable within five years	194,772	118,556
Less: amount capitalised	(47,930)	(18,724)
	146,842	99,832

6. TAXATION

	2010	2009
	RMB'000	*RMB'000*
PRC Enterprise Income Tax		
- Current year	225,035	188,430
- Underprovision in prior years	3,728	6,480
	228,763	194,910
Deferred tax	27,780	5,363
	256,543	200,273

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

Under the Law of the People's Republic of China 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, certain subsidiaries in the PRC 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 would expire in 2010.

Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine"), CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. ("Shougao") and Nantong are approved for 3 years as enterprises that satisfied the condition as high technology development enterprises and are subject to a preferential tax rate of 15% in 2009 and 2010. The approval was obtained before the year ended 31 December 2007 for Nanjing High Speed and 31 December 2008 for Nanjing Marine, Shougao and Nantong.

Nanjing High Accurate and Nanjing Gaote Gear Box Manufacturing Co., Ltd. ("Nanjing Gaote") are entitled to a 50% relief from the Enterprise Income Tax in both years.

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. Deferred tax liabilities of RMB48,895,000 (2009: RMB29,895,000) has been recognised in the consolidated financial statements in respect of the temporary differences attributable to such undistributed profits.

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

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

	2010	**2009**
	RMB'000	*RMB'000*
Profit before taxation	1,650,001	1,166,051
Tax at income tax rate of 25% (2009: 25%)	412,500	291,513
Income taxed at concessionary rate and tax exemption	(164,418)	(146,835)
Tax effect of share of results of associates and jointly controlled entities	(10,369)	(3,890)
Tax effect of expenses not deductible for tax purposes	37,569	219,049
Tax effect of income not taxable for tax purposes	(42,324)	(175,930)
Tax effect of tax losses not recognised	1,011	280
Utilisation of tax losses previously not recognised	(154)	(7,594)
Underprovision in prior year	3,728	6,480
Tax effect of undistributed earnings of the PRC's subsidiaries	19,000	17,200
Tax charge for the year	256,543	200,273

7. PROFIT FOR THE YEAR

	2010 *RMB'000*	2009 *RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors' emoluments	532,600	389,034
Less: staff cost included in research and development costs	(17,629)	(32,879)
	514,971	356,155
Auditor's remuneration	4,103	3,657
Allowance for inventories (included in cost of sales)	9,568	19,876
Amortisation of intangible assets (included in cost of sales)	40,230	22,677
Cost of inventories recognised as an expense	5,044,003	3,743,251
Depreciation of property, plant and equipment	329,176	193,497
Exchange gain	(117,210)	(12,705)
Exchange loss	148,267	43,292
(Gain) loss on disposal of property, plant and equipment	(2,338)	1,394
Impairment loss on intangible assets	3,213	1,416
Impairment loss on trade receivables	22,854	15,475
Release of prepaid lease payments	7,036	4,492

8. DIVIDENDS

	2010 *RMB'000*	2009 *RMB'000*
Dividends recognised as distribution during the year:		
Dividend of HK25 cents (equivalent to approximately RMB22 cents) per ordinary share as the final dividend for 2008	—	274,367
Dividend of HK30 cents (equivalent to approximately RMB26 cents) per ordinary share as the final dividend for 2009	327,427	—
	327,427	274,367

Final dividend for the year 2010 of HK33 cents, equivalent to RMB28 cents, (2009: HK30 cents, equivalent to RMB26 cents) per ordinary share amounting to an aggregate of approximately RMB382,270,000 (2009: RMB327,427,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. 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:

	2010	**2009**
	RMB'000	*RMB'000*
Earnings		
Earnings for the purpose of basic earnings per share (Profit for the year attributable to owners of the Company)	1,383,635	966,377
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds (note)	(148,916)	—
Earnings for the purpose of diluted earnings per share	1,234,719	966,377

	2010	**2009**
	'000	*'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,281,332	1,245,024
Effect of dilutive potential ordinary shares:		
Share option	7,956	7,476
Convertible bonds	74,704	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	1,363,992	1,252,500

Note: In 2009, the computation of diluted earnings per share does not assume the conversion of the convertible bonds since their assumed exercise would result in an increase in earnings per share.

10. TRADE AND OTHER RECEIVABLES

	2010	2009
	RMB'000	*RMB'000*
Notes receivable	1,273,633	424,940
Accounts receivable	1,953,787	1,516,501
Bills receivable	349,077	375,000
Less: allowance for doubtful debts	(71,955)	(49,250)
Total trade receivables	3,504,542	2,267,191
Advances to suppliers	223,301	255,299
Value added tax recoverable	51,088	13,653
Others	31,873	77,117
Total trade and other receivables	3,810,804	2,613,260

The Group generally allows a credit period of 90 days to 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:

	2010	2009
	RMB'000	*RMB'000*
0 - 90 days	2,304,890	1,657,578
91 - 120 days	663,406	148,121
121 - 180 days	290,714	94,501
181 - 365 days	99,450	131,791
Over 365 days	146,082	235,200
	3,504,542	2,267,191

The trade receivable balances of RMB3,259,010,000 (2009: RMB1,900,200,000) are neither past due nor impaired at the end of the reporting period for which the Group has not provided for impairment loss since they are mainly the customers with good quality. No impairment loss was made on advance to suppliers since they are with good credit quality.

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB245,532,000 (2009: RMB366,991,000) 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

	2010	2009
	RMB'000	*RMB'000*
181 - 365 days	99,450	131,791
Over 365 days	146,082	235,200
Total	245,532	366,991

Movement in the allowance for doubtful debts

	2010	2009
	RMB'000	*RMB'000*
Balance at beginning of the year	49,250	33,775
Impairment losses recognised on receivables	22,854	15,475
Amounts written off as uncollectible	(149)	—
Balance at end of the year	71,955	49,250

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB71,955,000 (2009: RMB49,250,000) 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 2010, the carrying amount of the bills discounted is RMB349,077,000 (2009: RMB375,000,000). The carrying amount of the associated liability which represented the cash received from discounted bills (see note 12) is RMB349,077,000 (2009: RMB375,000,000).

11. TRADE AND OTHER PAYABLES

	2010	2009
	RMB'000	*RMB'000*
Accounts payable	960,245	506,112
Notes payable (Note)	750,361	300,459
Total trade payables	1,710,606	806,571
Advances from customers	399,700	395,015
Purchase of property, plant and equipment	276,585	214,217
Payroll and welfare payables	81,388	69,754
Accrued expenses	9,570	9,400
Value added tax payable	62,449	38,460
Others	72,333	32,641
	2,612,631	1,566,058

Note: Notes payable are secured by the Group's bank deposits of RMB766,839,000 (2009: RMB451,389,000).

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

	2010	2009
	RMB'000	*RMB'000*
0 - 30 days	645,049	675,963
31- 60 days	308,554	83,986
61 - 180 days	721,167	29,449
181 - 365 days	21,032	9,127
Over 365 days	14,804	8,046
	1,710,606	806,571

The credit period on purchases of goods is 30 - 120 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

12. BORROWINGS

	2010 *RMB'000*	2009 *RMB'000*
Bank loans	2,902,624	2,193,314
Bills discounted with recourse	349,077	375,000
	3,251,701	2,568,314
Secured	361,651	439,203
Unsecured	2,890,050	2,129,111
	3,251,701	2,568,314
Carrying amount repayable*:		
On demand or within one year	1,208,651	1,556,273
More than one year, but not exceeding two years	2,043,050	1,012,041
	3,251,701	2,568,314
Less: Amounts due within one year shown under current liabilities	(1,208,651)	(1,556,273)
Amounts due over one year	2,043,050	1,012,041

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

The Group's borrowings include RMB865,624,000 (2009: RMB1,235,314,000) fixed-rate borrowings and RMB2,386,077,000 (2009: RMB1,333,000,000) variable-rate borrowings which carry interest rates based on the rate of People's Bank of China Prescribed Interest Rate.

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

	2010 *RMB'000*	2009 *RMB'000*
Fixed-rate borrowings:		
Within one year	859,574	1,175,274
In more than one year but not more than two years	6,050	60,040
	865,624	1,235,314

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

	2010 %	2009 %
Fixed-rate borrowings	3.51 - 7.97	3.51 - 7.97
Variable-rate borrowings	3.54 - 5.76	4.86 - 5.76

As at 31 December 2010, the Group's borrowings that are denominated in currencies other than RMB (the functional currency of relevant group entities) are USD1,133,000, which are equivalent to RMB7,659,000 (2009: HKD14,917,000, EUR5,204,000 and USD6,000,000, which are equivalent to RMB13,231,000, RMB50,972,000 and RMB40,991,000, respectively). All other bank borrowings are denominated in RMB.

As at 31 December 2010, the Group had loan facilities from banks of RMB11,333 million (2009: RMB8,334 million), of which RMB8,081 million (2009: RMB5,766 million) was not yet drawn down. Among the undrawn loan facilities at 31 December 2010, RMB6,996 million and RMB1,085 million will mature in 2011 and 2012, respectively.

The above secured bank borrowings at the end of the reporting period were secured by pledged bank deposits of RMB766,839,000 (2009: RMB451,389,000).

13. CONVERTIBLE BONDS

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds with an aggregate principal amount of RMB1,996.3 million. The convertible bonds are convertible at the option of bond holders into fully paid shares with a par value of US$0.01 each of the Company at a conversion price of HK$17.78 per share, which was subsequently adjusted to HK$17.2886 as a result of the payment of final dividend for 2007 and 2008 and further adjusted to HK$16.9817 as a result of payment of final dividend for 2009 as required according to the conditions of the convertible bonds with a fixed exchange rate of HK$1.00 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 bonds have not been converted, they will be redeemed on 14 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 only of the 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 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 convertible bonds are regarded as financial liabilities with embedded derivatives for the conversion and redemption options and the entire convertible bonds were designated as financial liabilities at FVTPL.

The movement of convertible bonds for 2009 and 2010 is set out below:

	RMB'000
As at 1 January 2009	931,550
Conversion of convertible bonds	(983)
Loss on fair value changes on convertible bonds	438,382
As at 31 December 2009	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

During the year ended 31 December 2009, 64,497 ordinary shares of US$0.01 each of the Company were issued upon conversion of convertible bonds with an aggregate principal amount of RMB1,000,000 (equivalent to HK$1,115,076) at the conversion price of HK$17.2886 in August 2009.

During the year ended 31 December 2010, 6,566 ordinary shares of US$0.01 each of the Company were issued upon conversion of convertible bond with an aggregate principal amount of RMB100,000 (equivalent to HK$111,508) at the conversion price of HK$16.9817 in June 2010.

At 31 December 2010, the principal amount payable at maturity is RMB1,147,000,000 (2009: RMB1,147,100,000).

	31/12/2010	**31/12/2009**
	RMB'000	*RMB'000*
Difference between carrying amount and maturity amount		
At fair value	1,219,933	1,368,949
Amount payable at maturity	1,254,179	1,254,288
	(34,246)	114,661

The change in fair value attributable to change in credit risk is insignificant.

The fair value of the convertible bond instrument containing the debt component and the embedded derivatives 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 the respective valuation dates are as follows:

	31 December 2010	**31 December 2009**
Share price	HK$12.04	HK$18.96
Exercise price	HK$16.9817	HK$17.2886
Risk-free rate of interest	0.29%	0.39%
Dividend yield	2.49%	1.32%
Time to expiration	0.37 years	1.37 years
Volatility	29.05%	81.94%
Borrowing rate of issuer	7.88%	16.65%

14. DERIVATIVE FINANCIAL INSTRUMENT/RESTRICTED CASH

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds as disclosed in note 13, the Company entered into a cash settled equity swap transaction (the "Equity Swap") with Morgan Stanley & Co. International plc (the "Equity Swap Counterparty") for 81.4 million shares of the Company up to a value of HK$1,113 million (equivalent to approximately RMB982 million). The Company is required to deposit the corresponding initial exchange amount of RMB982 million (equivalent to HK$1,113 million) with the Equity Swap Counterparty as restricted cash for the Equity Swap which carried no interest.

The Equity Swap will mature on 14 May 2011, at which time the Company will receive a payment from the Equity Swap Counterparty if the final price of the Company's share is higher than the initial price or will settle the payment to the Equity Swap Counterparty if the final price is lower than the initial price. The initial price is HK$13.6783 (equivalent to approximately RMB12.27) and the final price will be determined with reference to the volume weighted average price of the Company's share on the date of settlement. Besides, the Equity Swap will be settled on termination date subject to early termination option of either parties upon occurrence of certain early termination events.

During the year ended 31 December 2009, the Company has early terminated the Equity Swap in respect of 68,758,000 shares out of total 81,370,707 shares, equivalent to 84.5% of the Equity Swap.

The partial termination of the Equity Swap was settled at RMB50 million which was determined by reference to the difference between the market share price at the date of partial early termination and initial price.

The fair values of the derivative financial instrument outstanding at the end of the respective reporting periods are 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 are as follows:

	31 December 2010	**31 December 2009**
Initial price	HK$13.68	HK$13.68
Share price	HK$12.04	HK$18.96
Risk-free rate of interest	0.29%	0.39%
Dividend yield	2.49%	1.32%
Time to expiration	0.37 years	1.37 years
Volatility	29.05%	81.94%

15. SHARE CAPITAL

	Number of shares *(in thousand)*	**Amount** *US$'000*	**Equivalent to** *RMB'000*
Ordinary shares of US$0.01 each			
Authorised:			
At 1 January, 2009, 31 December 2009 and 2010	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2009	1,245,000	12,450	94,629
Conversion of convertible bonds	64	—	4
At 31 December 2009	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

Notes:

(a) During the year ended 31 December 2010, 6,566 ordinary shares of the Company of US$0.01 each were issued upon conversion of convertible bonds with an aggregate principal amount of RMB100,000 (equivalent to HK$111,508) at the conversion price of HK$16.9817 in June 2010. The shares issued rank pari passu with the then existing shares in all respects.

(b) On 21 September 2010, 130,000,000 new ordinary shares of US$0.01 each were issued at HK$17.38 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 HK$2,223 million was used as general working capital of the Group.

16. CAPITAL COMMITMENTS

	2010	**2009**
	RMB'000	*RMB'000*
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
- land leases	10,000	—
- property, plant and equipment	499,021	666,806
	509,021	666,806

17. RELATED PARTY DISCLOSURES

(I) Related party transactions

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

Name of company	Relationship	Nature of transactions	2010	2009
			RMB'000	*RMB'000*
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd.	Associate	Purchase of goods	79,784	18,200
Nanjing Marine Propulsion (Note)	Associate	Sales of goods	11,167	31,135
		Rental income	—	1,218
		Other income	—	175
Nanjing Yuhuatai District Saihong Bridge Street Office	Holding company of minority shareholder of a subsidiary	Rental expenses	—	1,431
Jiangsu Hongsheng Heavy Industries Group Co., Ltd.	Jointly controlled entity	Sales of goods	44,664	54,628
		Purchase of goods	34,649	41,414
Nanjing High Accurate Construction Equipment Co., Ltd.	Jointly controlled entity	Sales of goods	100,206	11,237
		Purchase of goods	13,658	6,351
		Rental income	—	180
		Other income	—	39

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.

(II) Related party balance

Details of the Group's outstanding balances with related parties are set out on the consolidated statement of financial position.

(III) 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, the Group did not have any other significant compensation to key management personnel.

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 2010, the Group recorded total sales revenue of approximately RMB7,392,649,000, representing a substantial increase of 30.9% over 2009. The gross profit margin recorded for the year was approximately 31.1%. Profit attributable to owners of the Company was approximately RMB1,383,635,000, representing a significant increase of 43.2% over 2009. If the effect of the fair value change of convertible bonds and equity swap had been excluded, the adjusted profit attributable to owners of the Company in 2010 would have been approximately RMB1,272,318,000, representing an increase of 15.0% over 2009. Basic and diluted earnings per share attributable to the owners of the Company amounted to approximately RMB1.08 and RMB0.91 respectively.

Principal business review

1. **Wind gear transmission equipment**

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

The wind gear transmission equipment is a major product that has been developed by the Company in recent years. Sales revenue of wind gear transmission equipment business surged by approximately 43.4% to approximately RMB5,457,532,000 (2009: RMB3,805,074,000) as compared with last year. The increase was mainly attributable to the proactive policies and measures adopted by the PRC government to encourage the use of renewable energy and green power generation. The increase was also attributable to the encouragement for the use of clean energy, including wind power, by the PRC government in support of the policy for the reduction in carbon dioxide emission.

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 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 our customers. In addition, the Group has achieved significant progress in the research and development of 3MW wind gear transmission equipment. During the period under review, the products delivered to customers by the Group were of satisfactory quality and are believed to bring a larger flow of business to the Group.

Currently, the customers of the wind power business of the Group include the major wind turbine manufacture in the PRC, as well as renowned international wind turbine manufacturers such as GE Energy, Vestas, REPower, Nordex, Fuji Heavy, etc. During the period under review, Guangdong Mingyang Wind Power Industrial Group Co. Ltd. has become one of the customers of the Group. With the Group's increasingly global operation, we believe that the Group will attract more wind turbine manufacturers.

2. **Marine gear transmission equipment**

Actively expand the domestic market

Marine gear transmission equipment is one of the Company's products in recent years. Sales of marine gear transmission equipment were generated from overseas and domestic orders. In the face of the global financial crisis, the Company is actively expanding its presence in the domestic market and enhancing diversification of marine gear transmission equipment products.

The Company began to develop the domestic market for marine gear transmission equipment last year and the market development is on schedule. During the period under review, turnover of marine gear transmission equipment increased significantly to approximately RMB234,253,000 (2009: RMB209,579,000), representing an increase of approximately 11.8% over the corresponding period last year.

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

Results have been achieved in the research and development with promising market potential

The use of high-speed trains, metros and urban light rail systems as environmentally-friendly 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, and passed the product quality certification conducted by ALSTOM Group in April 2008. Our products have been installed in the metros used in Beijing, Shanghai and Nanjing for field tests during the period under review. The Group will endeavor 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 RMB36,310,000 for the Group (2009: RMB14,279,000).

4. **Traditional transmission products**

Sales of new products remain strong

The Group's traditional gear transmission equipment products are mainly provided for customers from various industries including metallurgy, construction materials, traffic, transportation, petrochemicals, aerospace and mining. During the period under review, sales of gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills and other mechanical transmission equipment increased by 17.8% and 24.9% to approximately RMB550,743,000 (2009: RMB467,721,000) and RMB229,740,000 (2009: RMB183,872,000), respectively. Sales of high speed heavy load gear transmission equipment and gear transmission equipment for construction materials decreased by 14.6% and 15.8% to approximately RMB24,798,000 (2009: RMB29,049,000) and RMB668,452,000 (2009: RMB794,200,000), respectively.

Despite the macro-economic control imposed by the PRC government, the Group's gear transmission equipment for bar-rolling, wire-rolling and plate-rolling recorded sales growth, primarily attributable to the research and development of new products and the expansion to overseas markets. The Group focused on the development of energy-saving and environmentally-friendly products which are well received in the market. Benefited from the PRC government policy which promoted the development and upgrade of equipment manufacturing industry and in response to equipment upgrades in the metallurgy industry, the Group has proactively developed complete sets of transmission equipment during the period under review such as cold-rolled, hot-rolled, strip and bar, wire rolling and plate-rolling mills which are well received by the market.

5. **Computer numerical controlled ("CNC") products**

CNC products industry

Equipment manufacturing is a pillar industry of the national economy. Independent developing of the equipment manufacturing industry is one of the strategic objectives of the "Eleventh 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 the developing market of CNC machine tools, during the period under review, the Group has acquired a local manufacturer specialising in the research and development and production of CNC system and CNC machine tools. Such manufacturer possessed the proprietary intellectual property rights of its self-developed CNC system and machine tools. 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 RMB46,081,000 (2009: nil).

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 RMB866,414,000 (2009: RMB838,097,000), accounting for 11.7% to total sales (2009: 14.8%) and representing a decrease of 3.1% to total sales over the corresponding period last year. At present, the overseas customer base of the Company extends to the U.S., India, Japan and Europe. Since the economies in Europe and the U.S. was yet to be recovered during the period under review, the Company currently allocates more resources to the domestic market in response to the strong demand for the Company's products in China.

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. 161 patent applications have been filed, of which 119 patents are granted. The Company was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2008 quality management system certification, ISO14001:2004 environmental management system certification and GB/T28001-2001 Occupational Health and Safety Management System Certification. Nanjing High Accurate Marine Equipment Co., Ltd., a subsidiary of the Company, has obtained the workshop approval issued by Bureau Veritas (BV) in France. The welding workshop of the Company has obtained the workshop approvals issued by China Classification Society (CCS), Lloyd's Register of Shipping (LR) in UK, Germanischer Lloyd (GL) in Germany and Bureau Veritas (BV) in France. Our wind power products have obtained certifications from Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (GL) and DEWI-OCC Offshore and Certification Centre in Germany.

FINANCIAL PERFORMANCE

In the year of 2010, the Group's results gradually reflected the success of the Group's investment, the vision of the management team as well as the Group's advantage as a leading mechanical transmission equipment manufacturer. Overall sales revenue increased by 30.9% to approximately RMB7,392,649,000.

	Revenue	
	Year ended 31 December	
	2010	**2009**
	RMB'000	*RMB'000*
High-speed Heavy-load Gear Transmission Equipment	24,798	29,049
Gear Transmission Equipment for Construction Materials	668,452	794,200
General Purpose Gear Transmission Equipment	144,740	143,271
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	550,743	467,721
Wind Gear Transmission Equipment	5,457,532	3,805,074
Marine Gear Transmission Equipment	234,253	209,579
Transmission Equipment for High-speed Locomotives and Urban Light Rails	36,310	14,279
CNC Products	46,081	—
Others	229,740	183,872
	7,392,649	5,674,045

REVENUE

The Group's sales revenue for 2010 was approximately RMB7,392,649,000, representing an increase of 30.9% as compared with last year. The increase was mainly due to the continued growth in sales volume during the year. In particular, this was mainly attributable to an increase of 43.4% in sales revenue of wind gear transmission equipment from approximately RMB3,805,074,000 for 2009 to approximately RMB5,457,532,000 for 2010 and an increase of 17.8% in traditional transmission products including gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills from approximately RMB467,721,000 for 2009 to approximately RMB550,743,000 for 2010. Sales of marine gear transmission equipment also increased by 11.8% from approximately RMB209,579,000 for 2009 to approximately RMB234,253,000 for 2010.

Gross profit margin and gross profit

The Group's consolidated gross profit margin was approximately 31.1% for 2010, representing a slight decrease of 1.9% as compared with last year. The decrease was mainly attributable to the adjustment of the selling prices of some traditional products based on the market environment and the stable gross profit of wind gear transmission equipment. Consolidated gross profit for 2010 reached approximately RMB2,298,848,000 (2009: RMB1,861,241,000), representing an increase of 23.5% as compared with last year. This was mainly attributable to the increased sales of wind gear transmission equipment. The gross profit of wind gear transmission equipment increased from approximately RMB1,215,254,000 for 2009 to approximately RMB1,703,663,000 for 2010, representing an increase of 40.2%.

Other income, other gain and loss

The total amount of other income of the Group for 2010 was approximately RMB200,185,000 (2009: RMB105,369,000), an increase of 90.0% as compared with last year. Other income is mainly comprised of bank interest income, government grants and sales of wastages.

During the year, other gain and loss recorded a net gain of approximately RMB111,317,000 (2009: a net loss of RMB139,778,000), which mainly comprised fair value gain on convertible bonds and loss on derivative financial instruments.

Distribution and selling costs

The distribution and selling costs of the Group for 2010 were approximately RMB287,156,000 (2009: RMB139,174,000), representing an increase of 106.3% over 2009. The increase was mainly attributable to increased sales. The percentage of distribution and selling costs to sales revenue for 2010 was 3.9% (2009: 2.5%), representing an increase of 1.4% to sales revenue over 2009. This was mainly attributable to the increase of the provision of quality margin based on the principle of prudence in view of the strong market demand for wind gear transmission equipment.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB318,036,000 for 2009 to approximately RMB460,049,000 for 2010, mainly due to the increase in the number of staff and staff costs, and depreciation charges arising from increased investment in fixed assets by the Company. The percentage of administrative expenses to sales revenue was increased by 0.6% to 6.2% as compared with the last year.

Other expenses

Other expenses of the Group for 2010 were approximately RMB57,300,000 (2009: RMB48,939,000), which mainly comprised a net loss on foreign exchange of approximately RMB31,057,000 (2009: RMB30,587,000).

Finance costs

In 2010, the finance costs of the Group was approximately RMB146,842,000 (2009: RMB99,832,000), representing an increase of 47.1% as compared with last year, which was mainly due to the increase in bank loans and interest rates of loans.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2010, the equity attributable to owners of the Company amounted approximately to RMB7,392,730,000 (2009: RMB4,420,937,000). The Group had total assets of approximately RMB14,931,515,000 (2009: RMB10,234,919,000), representing an increase of approximately RMB4,696,596,000, or 45.9%, as compared with the beginning of the year. Total current assets of the Group were approximately RMB8,142,157,000 (2009: RMB5,037,358,000), representing an increase of 61.6% as compared with the beginning of the year and accounting for

54.5% of total assets (2009: 49.2%). Total non-current assets were approximately RMB6,789,358,000 (2009: RMB5,197,561,000), representing an increase of approximately 30.6% as compared with the beginning of the year and accounting for 45.5% of the total assets (2009: 50.8%).

As at 31 December 2010, total liabilities of the Group were approximately RMB7,417,174,000 (2009: RMB5,784,567,000), representing an increase of RMB1,632,607,000 as compared with the beginning of the year. Total current liabilities were approximately RMB5,225,886,000 (2009: RMB3,288,119,000), representing an increase of 58.9% as compared with the beginning of the year whereas total non-current liabilities were approximately RMB2,191,288,000 (2009: RMB2,496,448,000), representing a decrease of approximately 12.2% as compared with the beginning of the year.

As at 31 December 2010, the net current asset of the Group was approximately RMB2,916,271,000 (2009: RMB1,749,239,000), representing an increase of RMB1,167,032,000, or 66.7%, as compared with the beginning of the year.

As at 31 December 2010, total cash and bank balances of the Group were approximately RMB3,037,405,000 (2009: RMB1,074,486,000), including pledged bank deposits of RMB766,839,000 (2009: RMB451,389,000) and restricted cash of RMB146,798,000 (2009: RMB151,904,000). These restricted cash represents 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.

As at 31 December 2010, the Group had total bank loans of approximately RMB3,251,701,000 (2009: RMB2,568,314,000), of which short-term bank loans were RMB1,208,651,000 (2009: RMB1,556,273,000), accounting for approximately 37.2% (2009: 60.6%) 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 2010 ranges from 3.51% to 7.97% (2009: 3.51% to 7.97%).

Taking into account of the internal financial resources of and the banking facilities available to the Group, the issue of RMB denominated USD settled zero coupon convertible bonds of RMB1,996,300,000 in May 2008, 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) decreased from 56.5% in 2009 to 49.7% in 2010.

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) which is detailed as below:

(i) Reasons for the convertible bonds issue: to raise further capital for the purposes as set out in the paragraph headed "Use of proceeds" below whilst enlarging the shareholder base of the Company.

(ii) Type of the convertible bonds: convertible into ordinary shares.

(iii) Size and principal amount of the bonds: the aggregate principal amount of the bonds is RMB1,996.3 million.

(iv) Issue price: 100% of the principal amount of the bonds.

(v) According to the announcement dated 18 June 2010, the conversion price was adjusted from HK$17.2886 per share to HK$16.9817 per share from 18 June 2010 as a result of the payment of final dividends for the year ended 31 December 2009.

(vi) Net proceeds: approximately US$280 million.

(vii) Use of proceeds: approximately US$142.8 million (representing approximately 51.0% of the net proceeds) will be applied to enter into an equity swap contract, and the remaining proceeds of approximately US$137.2 million (representing approximately 49.0% of the net proceeds) will be used to further enhance production capacity till 2010 to meet the increasing demand for gear boxes and gear transmission equipment from various industries, such as wind power generation, marine and rail transportation, and applied as capital expenditure and daily working capital (including payment for imported equipment and components).

During the year, the Company did not repurchase and cancel any other convertible bonds.

In the second quarter of 2010, the convertible bonds with a total nominal value of RMB100,000 were converted into 6,566 shares.

As at 31 December 2010, the outstanding principal of the convertible bonds amounted to RMB1,147,000,000 (2009: RMB1,147,100,000). Based on the adjusted conversion price of HK$16.9817 per share and assuming full conversion of the bonds at the adjusted conversion price, the number of conversion shares falling to be issued in connection with the outstanding bonds will be 75,315,897 ordinary shares, representing approximately 5.5% of the existing issued share capital of the Company and approximately 5.2% of the issued share capital of the Company as enlarged by the full conversion of the bonds.

For the year ended 31 December 2010, gain on fair value changes of such convertible bonds was approximately RMB148,916,000 (2009: loss on fair value changes of convertible bonds was RMB438,382,000).

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). Further details for the Equity Swap were set out in the Company's announcement dated 24 April 2008.

As at 4 May 2009, the Company and the Equity Swap Counterparty had undertaken the partial termination in respect of 68,758,000 shares under the Equity Swap at an average final price of HK$12.8495 per share (net of early termination fee and other costs and expenses). Further details were set out in the Company's announcement dated 5 May 2009.

On 6 November 2009, the Company entered into an amended and restated Equity Swap with the Equity Swap Counterparty. Under the amended and restated Equity Swap, the Company may elect for physical delivery of shares (the "Share Delivery Option") as an alternative to cash settlement. In the event that the Company elects to exercise the Share Delivery Option to settle a scheduled termination of the remaining Equity Swap in whole, the Equity Swap Counterparty will deliver to the Company the number of ordinary shares in the issued share capital of the Company specified in the Equity Swap as amended from time to time (i.e. 12,612,707 ordinary shares), whereupon the Equity Swap Counterparty will have no obligation to repay the remaining proportional amount of the Initial Exchange Amount (i.e. HK$172,520,390.16) to the Company. In the event that the Company elects to exercise the Share Delivery Option to settle a partial optional early termination of the

Equity Swap, the Equity Swap Counterparty will deliver to the Company the terminated number of shares and the Equity Swap Counterparty's obligation to repay to the Company a proportional amount of the initial exchange amount shall no longer apply. Where the Company has elected for the Share Delivery Option to apply, the shares to be delivered by the Equity Swap Counterparty will be promptly cancelled by the Company. Exercising the Share Delivery Option on one or more occasions will constitute an off-market repurchase of up to a total of 12,612,707 ordinary shares (representing approximately 1.0% of the existing issued share capital of the Company) under the Hong Kong Code on Share Repurchases. The potential off-market repurchase of shares was approved by the extraordinary general meeting of shareholders by way of a special resolution on 15 January 2010. Further details of the amended and restated Equity Swap were set out in the Company's announcements dated 6 November 2009 and 15 January 2010 and circular dated 24 December 2009.

For the year ended 31 December 2010, loss on fair value changes of the Equity Swap was approximately RMB37,599,000 (2009: gain was RMB298,604,000).

Share Placing

On 10 September 2010, the Company agreed to place 130,000,000 shares to not less than 6 independent places with the following particulars:

1. **Reason for placing:** the placing represents an opportunity to raise capital for the Company while broadening the Shareholders' base and capital base of the Company.

2. **Class of shares**: Ordinary

3. **Number of placing shares and aggregate nominal value:** US$1,300,000, divided into 130,000,000 shares of US$0.01 each

4. **Issue price:** HK$17.38

5. **Net price:** HK$17.10

6. **Placees:** not less than 6 independent placees

7. **Closing price on the date of agreement:** HK$18.50

8. **Use of proceeds:** the Company intends to use the net proceeds of the Top-up Subscription to fund capital expenditure, investments in our existing products extension (including mechanical electrical integration), general corporate purposes, as well as to further strengthen the balance sheet and liquidity position of the Company.

For details, please refer to the Company's announcements dated 10 and 21 September 2010, respectively.

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi.

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.

PROSPECTS

Environmental protection, energy conservation and emission reduction are the major concerns of every country in the world. The PRC government considered renewable energy development as the core of "The Twelfth Five-Year Plan for National Economic and Social Development". In 2010, with favourable market environment, all business segments of the Group developed steadily. In the future, the new development targets of the Group 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.

In 2010, installed capacity of the PRC wind power industry was ranked first in the world. Expansion of the scale of wind power generating units has become the development trend of the industry due to the rapid development of offshore wind power of the PRC. The Group intends to expand its total production capacity to 12,000MW in 2011 in line with the development of the wind power industry in the PRC. Owing to the enormous demands, the Group is confident in increasing bulk orders of 3MW wind gear transmission equipment in the PRC market in the future. The Group has also started the research and development of 5MW wind gear transmission equipment to realise its large-scale development strategy.

In addition to consolidating the development of wind 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. The Group is currently working with Alstom, its French partner, to develop high-speed train gear with a speed of 570 km, which will become the fastest high-speed train in the world upon its successful development. The cooperation has proved the leading position of the Group in the overseas market and laid a solid foundation for its future rapid profit growth in the railway sector.

In respect of marine equipment, Nanjing High Accurate Marine Equipment Co., Ltd., a wholly-owned subsidiary of the Group, has completed operation tests of its self-developed steel-made high speed shaft CP propeller(鋼制高速軸可調槳推進系統), which is the first-ever in China. 3000 HP Azimuth thrusters(全迴轉推進器)with the first-ever power in China was also researched and developed successfully and the largest tunnel propeller(側向推進器) passed the test and will be delivered and commence operation. The Group will strive to secure more domestic and overseas orders through its continuous efforts in the research and development of new marine equipment.

The Group is planning to expand its traditional gear transmission equipment business overseas as the metallurgy equipment set delivered to India last year was well received by the customers. Moreover, the Group will continue to develop digital control transmission gear product and explore the business of electrical transmission equipment by modifying its mechanical transmission equipment. At the end of last year, the Group planned to develop coal and agricultural mechanical equipment business through acquisitions and joint ventures in order to expand different business segments to generate profits and comply with its future development strategy of business transformation from the provision of single parts and components to electrical transmission mechanical equipment.

The Group will capitalise on its leading position in the industry and its high quality products to consolidate its market position in the PRC market. It will also increase its market share in the overseas market to strive for higher profitability from its export business. It established a subsidiary in California, the U.S. in 2008 to provide after-sale services of wind gear transmission equipment products. A repair and maintenance factory of wind gear equipment is planned to be set up in Texas, the U.S., which will provide geographical advantages for the Group's overseas business and facilitate the services provision for overseas customers.

Looking forward, the renewable power industry is full of opportunities and challenges and fluctuations are unavoidable in the recovering global financial market. Through expanding different business segments and developing diversified products, 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, strengthen its overall competitiveness and minimise market risks.

OTHER SUPPLEMENTARY INFORMATION

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

During the year, a final dividend of HK30 cents (equivalent to RMB26 cents) per share (2009: HK25 cents (equivalent to RMB22 cents)) for 2009 has been paid to shareholders.

The Board has recommended payment of a final dividend of HK33 cents per share for the year ended 31 December 2010 to be paid on around 27 June 2011 to shareholders whose names appear on the register of members of the Company on 13 June 2011 subject to shareholders' approval. The register of members of the Company will be closed from Tuesday, 7 June 2011 to Monday, 13 June 2011, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be logged with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 3 June 2011.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

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 2010, 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, for bank borrowings that may expose to foreign exchange rate risks, would be the Group's bank borrowing denominated in U.S. dollars as at 31 December 2010 amounting to approximately US$1,133,000. The Group may thus be exposed to foreign exchange risks.

The net losses of foreign exchange recorded by the Group for the year was approximately RMB31,057,000 (2009: RMB30,587,000), which was due to the appreciation of Renminbi against major foreign currencies in 2010. 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 foreign 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") 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 PBOC of RMB loans 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 REMUNERATTON POLICY

As at 31 December 2010, the Group employed approximately 5,932 employees (2009: 4,931). Staff cost of the Group for 2010 approximated to RMB532,600,000 (2009: RMB389,034,000. 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 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) to encourage employee performance and a range of training programmes for the development of its staff.

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.

SIGNIFICANT INVESTMENT HELD

Save as disclosed above, there was no significant investment held by the Group during the year.

MATERIAL ACQUISITION AND DISPOSAL

During the year, there was no material acquisition and disposal of subsidiaries and associated companies.

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of corporate governance practice to the success of a listed company. The Company is committed to achieving high standard 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 the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2010 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 2010.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

Save as disclosed below, as at 31 December 2010, neither the Company nor any of its subsidiaries has purchased, redeemed or cancelled any of the Company's listed securities.

On 10 September 2010, the Company agreed to place 130,000,000 shares to not less than 6 independent placees. For details, please refer to the paragraph headed "Capital Structure" above.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2010 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu in this announcement.

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

Hong Kong, 25 March 2011

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