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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 658)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

RESULTS HIGHLIGHTS

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

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

Both basic and diluted earnings per share for 2012 were RMB0.102.

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

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 2012 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 2012

	NOTES	**2012** *RMB'000*	**2011** *RMB'000*
Revenue	3	6,368,817	7,120,712
Cost of sales		(4,815,463)	(5,301,916)
Gross profit		1,553,354	1,818,796
Other income	4	215,192	231,613
Other gains and losses	5	(2,354)	(70,078)
Distribution and selling costs		(278,779)	(254,278)
Administrative expenses		(502,090)	(527,057)
Research and development costs		(137,804)	(83,084)
Other expenses		(88,518)	(123,231)
Finance costs	6	(523,878)	(323,399)
Share of results of associates		(11,742)	1,172
Share of results of jointly controlled entities		(15,712)	24,622
Profit before taxation		207,669	695,076
Taxation	7	(79,197)	(147,488)
Profit for the year	8	128,472	547,588
Other comprehensive expense for the year			
Exchange difference arising on translation		(261)	(291)
Fair value loss on:			
available-for-sale financial assets		(59,587)	—
hedging instruments designated in cash flow hedges		(6,496)	—
Other comprehensive expense for the year		(66,344)	(291)
Total comprehensive income for the year		62,128	547,297
Profit (loss) for the year attributable to:			
Owners of the Company		138,426	556,974
Non-controlling interests		(9,954)	(9,386)
		128,472	547,588
Total comprehensive income (expense) attributable to:			
Owners of the Company		72,082	556,683
Non-controlling interests		(9,954)	(9,386)
		62,128	547,297
Earnings per share	10		
Basic (RMB)		0.102	0.407
Diluted (RMB)		0.102	0.406

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	**2012**	**2011**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		6,238,143	5,588,890
Prepaid lease payments		938,448	609,362
Goodwill		17,715	17,715
Intangible assets		277,806	271,303
Interests in associates		183,324	186,066
Interests in jointly controlled entities		612,572	652,284
Available-for-sale investments	11	306,658	362,945
Deposit for land lease		336,042	400,000
Prepayment for acquisition of property, plant and equipment		89,828	31,373
Deferred tax assets		68,525	27,933
		9,069,061	8,147,871
CURRENT ASSETS			
Inventories		1,780,504	1,799,018
Prepaid lease payments		20,330	13,321
Trade and other receivables	12	4,667,937	4,937,637
Amounts due from associates		5,507	30,431
Amounts due from jointly controlled entities		35,806	26,744
Tax asset		875	18,448
Pledged bank deposits		1,897,712	1,252,922
Bank balances and cash		2,404,502	2,174,592
		10,813,173	10,253,113
CURRENT LIABILITIES			
Trade and other payables	13	2,945,279	2,825,862
Amounts due to associates		76,476	397
Amount due to a jointly controlled entity		—	11,686
Tax liabilities		81,683	87,361
Borrowings - due within one year	14	7,449,119	4,991,382
Warranty provision		92,239	81,261
		10,644,796	7,997,949
NET CURRENT ASSETS		168,377	2,255,164
TOTAL ASSETS LESS CURRENT LIABILITIES		9,237,438	10,403,035

	NOTES	**2012**	**2011**
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Borrowings - due after one year	14	1,288,238	2,627,075
Deferred tax liabilities		18,242	63,066
Deferred income		179,899	90,859
Derivative financial instruments		6,496	—
		1,492,875	2,781,000
		7,744,563	7,622,035
CAPITAL AND RESERVES			
Share capital		102,543	102,543
Reserves		7,436,895	7,370,038
Equity attributable to owners of the Company		7,539,438	7,472,581
Non-controlling interests		205,125	149,454
		7,744,563	7,622,035

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.

The consolidated financial statements are prepared in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board (the "IASB"). In addition, the consolidated financial statements applied the applicable disclosures set out in the Rules Governing the Listing of Securities on the Stock Exchange and the requirements of the Hong Kong Companies Ordinance.

Save as certain financial instruments are measured at fair value, the consolidated financial statements are prepared on the historical costs basis, which is generally based on the fair value of the consideration for exchange of assets.

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

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

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

In the current year, the Group has applied the following amendments to IFRSs issued by the IASB.

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

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

Amendments to IFRS 7 Disclosures — Transfers of Financial Assets

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

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

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

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

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

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

New and revised IFRSs issued but not yet effective

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

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

1 Effective for annual periods beginning on or after 1 January 2013.

2 Effective for annual periods beginning on or after 1 January 2014.

3 Effective for annual periods beginning on or after 1 January 2015.

4 Effective for annual periods beginning on or after 1 July 2012.

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9 are described as follows:

- All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

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

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

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

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

Key requirements of these five standards are described below.

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

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

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

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

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

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

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of IFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in

IFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under IFRS 7 Financial Instruments: Disclosures will be extended by IFRS 13 to cover all assets and liabilities within its scope.

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

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

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

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

3. 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.

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

Segment revenue and results

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

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

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

Segment assets

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

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

Other segment information

2012

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

2011

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

Revenue from major product and services

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

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

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

Geographical information

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

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

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

Information about major customers

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

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

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

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

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

4. OTHER INCOME

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

Notes:

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

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

5. OTHER GAINS AND LOSSES

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

6. FINANCE COSTS

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

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

7. TAXATION

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

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

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

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

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

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

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

8. PROFIT FOR THE YEAR

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

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

9. DIVIDENDS

	2012	2011
	RMB'000	*RMB'000*
Dividends recognised as distribution:		
No dividend recognised as distribution during the year (2011: dividend of HKD33 cents (equivalent to approximately RMB28 cents) per ordinary share as the final dividend for 2010)	—	374,918

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

10. EARNINGS PER SHARE

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

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

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

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

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

11. AVAILABLE-FOR-SALE INVESTMENTS

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

Notes:

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

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

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

12. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

Ageing of trade receivables which are past due but not impaired

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

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

13. TRADE AND OTHER PAYABLES

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

Note: Notes payable are secured by certain of the Group's assets.

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

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

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

14. BORROWINGS

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

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

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

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

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

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

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

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

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

The above secured bank borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 16.

15. CAPITAL COMMITMENTS

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

16. PLEDGE OF ASSETS

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

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

17. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. For the year ended 31 December 2012, the Group recorded sales revenue of approximately RMB6,368,817,000 (2011: RMB7,120,712,000), representing a decrease of approximately 10.6% from 2011. The gross profit margin was approximately 24.4% (2011: 25.5%). Profit attributable to owners of the Company was approximately RMB138,426,000 (2011: RMB556,974,000), representing a decrease of 75.1% from 2011. Basic and diluted earnings per share attributable to the owners of the Company amounted to RMB0.102 and RMB0.102 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 Group. During the Period under Review, sales revenue of wind power gear transmission equipment business decreased by approximately 17.1% to approximately RMB3,951,965,000 (2011: RMB4,769,523,000) as compared with last year. The decrease was mainly attributable to the decrease of orders as the recovery of world economy is still slow and the consolidation of domestic wind power industry is not completed.

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

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

2. Marine gear transmission equipment

Actively expand the domestic market

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

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

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

Achievements in the research and development and promising market potential

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

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

4. Traditional transmission products

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

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

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

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

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

CNC machine tool products industry

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

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

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

6. Diesel engine product industry

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

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

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

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

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

LOCAL AND EXPORT SALES

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

PATENTED AND CERTIFICATION PROJECTS

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

PROSPECTS

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

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

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

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

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

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

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

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

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

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

FINANCIAL PERFORMANCE

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

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

REVENUE

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

Gross profit margin and gross profit

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

Other income, other gains and losses

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

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

Distribution and selling costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

FINANCIAL RESOURCES AND LIQUIDITY

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

As at 31 December 2012, total liabilities of the Group were approximately RMB12,137,671,000 (31 December 2011: RMB10,778,949,000), representing an increase of RMB1,358,722,000 as compared with the beginning of the year. Total current liabilities were approximately RMB10,644,796,000 (31 December 2011:

RMB7,997,949,000), representing an increase of 33.1% as compared with the beginning of the year whereas total non-current liabilities were approximately RMB1,492,875,000 (31 December 2011: RMB2,781,000,000), representing a decrease of approximately 46.3% as compared with the beginning of the year.

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

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

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

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the net current asset of RMB168,377,000, the directors of the Company believe that the Group will have a sound financial position to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 58.6% as at 31 December 2011 to 61.0% as at 31 December 2012, mainly due to the increase in bank loans.

Capital structure

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

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

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

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

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

PLEDGE OF ASSETS

Save as disclosed in note 16, the Group has made no further pledge of assets as at 31 December 2012.

OTHER SUPPLEMENTARY INFORMATION

FINAL DIVIDEND

The Board did not recommend payment of a final dividend for the year ended 31 December 2012.

FOREIGN EXCHANGE RISK

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

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

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

INTEREST RATE RISK

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

EMPLOYEES AND REMUNERATION

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

SIGNIFICANT INVESTMENT HELD

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

MATERIAL ACQUISITION AND DISPOSAL

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

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

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

CORPORATE GOVERNANCE

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

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

The Chairman and Chief Executive Officer of the Company, as well as most of the non-executive directors, the chairman of the audit committee, the chairman of the remuneration committee, the chairman of the nomination committee, and the external auditor attended the 2011 Annual General Meeting, except Mr. Zhu Junsheng, being an non-executive director, who did not attend the 2011 Annual General Meeting because of sickness.

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 2012.

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

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

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 2012 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, 28 March 2013

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