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CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED
中國航天萬源國際（集團）有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code :1185)

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2012

RESULTS

The directors of China Energine International (Holdings) Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2012 as follows:

Consolidated Statement of Comprehensive Income
For The Year Ended 31 December 2012

	NOTES	**2012** **HK$'000**	2011 *HK$'000*
Turnover	2	**989,885**	406,285
Cost of sales		**(1,010,356)**	(381,730)
Gross (loss) profit		**(20,471)**	24,555
Other income	4	**44,552**	23,678
Other gains and losses		**14,960**	(5,062)
Selling and distribution expenses		**(50,687)**	(20,193)
Administrative expenses		**(161,923)**	(114,884)
Increase in fair value of investment property		**—**	5,640
Finance costs	5	**(88,011)**	(62,013)
Share of results of associates		**16,896**	15,689
Share of results of jointly controlled entities		**169,038**	145,813
Reversal of impairment loss recognised in respect of interest in a jointly controlled entity		**89,000**	—
Profit before taxation	6	**13,354**	13,223
Taxation	7	**(7,933)**	(11,318)
Profit for the year		**5,421**	1,905

	NOTES	2012 HK$'000	2011 HK$'000
Other comprehensive income (expense):			
Exchange differences arising on translation to presentation currency		**52,890**	56,541
Change in fair value of available-for-sale financial asset		**(14,881)**	—
Total comprehensive income for the year		**43,430**	58,446
Profit for the year attributable to:			
Owners of the Company		**26,598**	11,472
Non-controlling interests		**(21,177)**	(9,567)
		5,421	1,905
Total comprehensive income attributable to:			
Owners of the Company		**58,758**	64,921
Non-controlling interests		**(15,328)**	(6,475)
		43,430	58,446
Earnings per share - Basic	9	**HK0.67 cents**	HK0.29 cents

* *For identification purpose only*

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2012

	NOTES	**2012** **HK$'000**	2011 HK$'000
Non-current assets			
Investment property		**38,725**	37,680
Property, plant and equipment		**501,383**	450,099
Deposits paid for acquisition of property, plant and equipment		**22,851**	14,293
Goodwill		**2,004**	4,903
Intangible assets		**68,776**	69,842
Deferred tax assets		**3,090**	3,985
Interests in associates		**399,975**	370,566
Interests in jointly controlled entities		**1,416,222**	1,272,882
Available-for-sale financial asset		**102,944**	—
		2,555,970	2,224,250
Current assets			
Inventories		**482,686**	469,638
Trade and other receivables	10	**879,697**	558,342
Amounts due from associates		**15,448**	45,856
Amounts due from jointly controlled entities		**140,460**	161,795
Pledged bank deposits		**24,947**	22,606
Fixed bank deposits		**—**	12,409
Bank balances and cash		**462,393**	356,562
		2,005,631	1,627,208

	NOTES	2012 HK$'000	2011 HK$'000
Current liabilities			
Trade and other payables	11	**526,986**	525,090
Amounts due to associates		**134,584**	63,708
Amount due to a jointly controlled entity		**22,573**	—
Government grants		**502**	249
Taxation payable		**489**	1,674
Warranty provision		**31,218**	22,380
Borrowings - amount due within one year		**792,378**	530,400
		1,508,730	1,143,501
Net current assets		**496,901**	483,707
Total assets less current liabilities		**3,052,871**	2,707,957
Non-current liabilities			
Borrowings - amount due after one year		**1,044,324**	796,548
Deferred tax liabilities		**18,823**	19,188
Government grants		**8,531**	7,830
		1,071,678	823,566
		1,981,193	1,884,391
Capital and reserves			
Share capital		**396,900**	396,900
Reserves		**1,387,007**	1,327,124
Equity attributable to owners of the Company		**1,783,907**	1,724,024
Non-controlling interests		**197,286**	160,367
Total equity		**1,981,193**	1,884,391

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS")

In the current year, the Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 12	Deferred tax: Recovery of underlying assets; and
Amendments to HKFRS 7	Financial instruments: Disclosures - Transfers of financial assets.

Except as described below, the application of the amendments to HKFRSs 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 HKAS 12 Deferred tax: Recovery of underlying assets

The Group has applied for the first time the amendments to HKAS 12 "Deferred tax: Recovery of underlying assets" in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 "Investment property" are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment property using the fair value model. As a result of the application of the amendments to HKAS 12, the directors reviewed the Group's investment property and concluded that the Group's investment property is held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over use, rather than through sale. Therefore, the directors have determined that the 'sale' presumption set out in the amendments to HKAS 12 is rebutted. The application of the amendments to HKAS 12 in the current year has no financial impact to the Group.

New and revised HKFRSs issued but not yet effective

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2009 - 2011 cycle[1]
Amendments to HKFRS 7	Disclosures - Offsetting financial assets and financial liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory effective date of HKFRS 9 and transition disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities[2]
HKFRS 9	Financial instruments[3]
HKFRS 10	Consolidated financial statements[1]
HKFRS 11	Joint arrangements[1]
HKFRS 12	Disclosure of interests in other entities[1]
HKFRS 13	Fair value measurement[1]
HKAS 19 (as revised in 2011)	Employee benefits[1]
HKAS 27 (as revised in 2011)	Separate financial statements[1]
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures[1]
Amendments to HKAS 1	Presentation of items of other comprehensive income[4]
Amendments to HKAS 32	Offsetting financial assets and financial liabilities[2]
HK(IFRIC) - INT 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.

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

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

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements. HK(SIC) - INT 12 "Consolidation - Special purpose entities" will be withdrawn upon the effective date of HKFRS 10. Under HKFRS 10, there is only one basis for consolidation, that is, control. In addition, HKFRS 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 HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures". HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. HK(SIC) - INT 13 "Jointly controlled entities - Non-monetary contributions by venturers" will be withdrawn upon the effective date of HKFRS 11. Under HKFRS 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 HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations. In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate consolidation.

HKFRS 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 HKFRS 12 are more extensive than those in the current standards.

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs 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 early at the same time.

The Directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have impact on amounts reported in the consolidated financial statements. However, the Directors are in the process of accessing the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair value measurement

HKFRS 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 HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 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 HKFRS 7 "Financial instruments: Disclosures" will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Directors anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 "Presentation of items of other comprehensive income" introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. The amendments to HKAS 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 HKAS 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 HKAS 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.

The directors of the company anticipate that the application of the other new or revised HKFRSs will have no material impact on the results and the financial position of the Group.

2. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	2012	2011
	HK$'000	*HK$'000*
Sales of goods	**225,765**	181,077
Sales of electricity from operation of wind power field	**29,428**	28,423
Sales of wind energy related products	**734,692**	196,785
	989,885	406,285

3. SEGMENT INFORMATION

Information reported to the Group's Executive Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating and reportable segments under HKFRS 8 are as follows:

Wind Energy Related Products	—	Manufacture and sales of wind energy related products
Operation of Wind Farm	—	Sales of electricity from operation of wind power field
REPM Products	—	Manufacture and distribution of elevator motors
Trading of Materials	—	Trading of chemical materials
Telecommunication Business	—	Development, manufacture and distribution of communication products, ITS, broadband systems, equipment and accessories

Information regarding these segments is presented below.

Segment revenue and results

The following is an analysis of the Group's turnover and results by operating and reportable segment.

For the year ended 31 December 2012

	Wind Energy Related Products *HK$'000*	Operation of Wind Farm *HK$'000*	REPM Products *HK$'000*	Trading of Materials *HK$'000*	Tele-communication Business *HK$'000*	Consolidated *HK$'000*
TURNOVER						
External sales	**734,692**	**29,428**	**31,264**	**166,792**	**27,709**	**989,885**
RESULT						
Segment result	**(116,179)**	**22,641**	**739**	**311**	**(3,806)**	**(96,294)**
Unallocated corporate expenses						**(71,837)**
Unallocated other income						**11,792**
Finance costs						**(88,011)**
Share of results of jointly controlled entities - unallocated portion						**168,704**
Reversal of impairment loss recognised in respect of interest in a jointly controlled entity						**89,000**
Profit before taxation						**13,354**

For the year ended 31 December 2011

	Wind Energy Related Products	Operation of Wind Farm	REPM Products	Trading of Materials	Tele-communication Business	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
TURNOVER						
External sales	196,785	28,423	28,953	106,768	45,356	406,285
RESULT						
Segment result	(58,234)	39,026	(13,836)	724	(7,426)	(39,746)
Unallocated corporate expenses						(46,101)
Unallocated other income						9,085
Finance costs						(62,013)
Increase in fair value of investment property						5,640
Share of results of jointly controlled entities - unallocated portion						146,358
Profit before taxation						13,223

Segment results represent the profit or loss before taxation earned or incurred by each segment, excluding finance costs, fair value gain on investment property, reversal of impairment loss in respect of interest in a jointly controlled entity, share of results of jointly controlled entities which cannot be allocated, unallocated other income and corporate expenses such as central administration costs and directors' salaries. Share of profit of associates of HK$16,896,000 (2011: HK$15,689,000) and share of profit of jointly controlled entities of HK$335,000 (2011 : share of loss HK$545,000) were allocated to reportable segments. This is the measure reported to the Group's Executive Directors for the purpose of resources allocation and assessment of segment performance.

4. OTHER INCOME

	2012	2011
	HK$'000	*HK$'000*
Other income comprise:		
Clean Development Mechanism income	**5,256**	5,638
Government grants	**2,669**	2,152
Rental income	**1,483**	1,443
Interest income		
– bank balances	**3,170**	3,464
– advance to jointly controlled entities	**7,137**	7,014
Other income		
– gain on disposal of a propety development project	**23,280**	—

5. FINANCE COSTS

	2012	2011
	HK$'000	*HK$'000*
Interest on bank and other loans:		
– wholly repayable within five years	**82,732**	57,207
– not wholly repayable within five years	**5,279**	4,806
	88,011	62,013

6. PROFIT BEFORE TAXATION

	2012	2011
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Directors' emoluments	**5,622**	5,860
Other staff costs	**79,692**	42,244
Other staff's retirement benefits scheme contributions	**9,863**	4,778
	95,177	52,882
Auditor's remuneration	**3,000**	3,000
Amortisation of intangible assets	**12,330**	1,996
Cost of inventories recognised as an expense (including allowance for obsolete inventories of HK$1,058,000 (2011: HK$1,479,000))	**992,706**	356,182
Depreciation of property, plant and equipment	**33,844**	30,923
Less: Amounts capitalised in inventories	**(4,401)**	(2,988)
	29,443	27,935
Minimum lease payments under operating leases in respect of land and buildings	**11,835**	6,081
Research and development expenses	**1,646**	7,728

7. TAXATION

	2012	2011
	HK$'000	*HK$'000*
Tax charge for the year comprises:		
PRC Enterprise Income Tax	**7,479**	9,103
Deferred tax charge	**454**	2,215
	7,933	11,318

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in or derived from Hong Kong for both years.

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% in 2011 and 2012, except for one of the Company's PRC subsidiaries, who was exempted from PRC income tax for two years starting from year 2007, which was its first profit-making year, followed by a 50% reduction for the next three years ended 31 December 2011.

8. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2012, nor has any dividend been proposed since the end of the reporting period (2011: Nil).

9. EARNINGS PER SHARE - BASIC

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

	2012	2011
	HK$'000	*HK$'000*
Earnings for the purpose of basic earnings per share	**26,598**	11,472

	Number of shares	
	2012	2011
Number of shares for the purposes of basic earnings per share	**3,968,995,668**	3,968,995,668

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding for both years.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$493,668,000 (2011: HK$169,502,000) net of allowance for doubtful debts of HK$65,687,000 (2011: HK$70,143,000). The amount of trade receivables at 31 December 2012 included retention receivables for the sales of wind turbines to third parties of HK$79,322,000 (2011: HK$28,624,000). The balances will be settled upon the completion of warranty period of 1 - 3 years (2011: 3 years). For the remaining balances of trade receivables, the Group allows credit periods for 90 days on average to its customers for sales of goods and rendering of services. At the discretion of the executive directors, several major customers were allowed to settle their balances beyond the credit terms up to one year. The following is an aged analysis of trade receivables, net of allowances, presented based on invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**280,280**	48,503
Between 31 - 90 days	**4,987**	7,740
Between 91 - 180 days	**7,112**	3,821
Between 181 - 365 days	**85,916**	389
Over 1 year	**115,373**	109,049
	493,668	169,502

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$419,898,000 (2011: HK$246,043,000). The Group normally receives credit period for 30 to 90 days from its suppliers. The following is an aged analysis of trade payables based on invoice date at the end of the reporting period:

	2012	2011
	HK$'000	*HK$'000*
Within 30 days	**125,720**	223,628
Between 31 - 90 days	**159,941**	11,720
Between 91 - 180 days	**23,540**	2,598
Between 181 - 365 days	**71,541**	3,069
Over 1 year	**39,156**	5,028
	419,898	246,043

RESULTS SUMMARY

As of 31 December 2012, the Group's turnover for the year 2012 amounted to HK$989.89 million with a profit for the year attributable to the Company's owners of HK$26.60 million as compared to the turnover of HK$406.29 million with a profit for the year attributable to owners of the Company of HK$11.47 million for the year 2011 respectively, representing an increase of 144% in turnover and an increase of 132% in profit for the year. The turnover for the year comprised sales of wind energy related products of HK$734.69 million, sales of electricity generated from wind farms of HK$29.43 million, sales of rare-earth permanent-magnet motor products of HK$31.26 million, sales of chemical materials of HK$166.79 million and sales of HK$27.71 million related to telecommunication business, whereas the turnover in 2011 comprised sales of wind energy related products of HK$196.79 million, sales of electricity generated from wind farms of HK$28.42 million, sales of rare-earth permanent-magnet motor products of HK$28.95 million, sales of chemical materials of HK$106.77 million and sales of HK$45.36 million related to telecommunication business. The increase in turnover was mainly due to the increase in sales of the Group's wind energy related products by HK$537.90 million, representing an increase of 273% year-on-year, with wind turbines sold in 2012 increased by 143 sets of 1.5MW wind turbines.

BUSINESS REVIEW

Business of Wind Energy

In 2012, the directdrive wind turbine developed by the Group with proprietary intellectual property rights participated in fierce competition in the domestic market which is currently a buyers' market, and was highly recognized by wind farm developers within the industry for its simple structure, high reliability, high efficiency and low operation and maintenance costs. The Group continued to give full play to the advantages of technology, quality and service of CASC directdrive wind turbines. On this basis, the Group capitalised on its products' leading edge and achieved cost control by adopting the strategy of technology advancement and batch production through research and development, thereby achieving high supply chain performance and enhanced cost effectiveness to proactively address challenges. Through Inner Mongolia Wind Turbine General Assembling Plant, Gansu Wind Turbine General Assembling Plant and Jiangsu Energine Wind Turbine General Assembling Plant, the Group realized mass production of a number of self-developed models (especially 1.5MW excitation magnetic directdrive wind turbine, 2MW permanent-magnet directdrive wind turbine and 2MW excitation magnetic directdrive wind turbine), and adopted the strategy of establishing good relationship with several provincial and autonomous regions' governments to gain their supports and leveraging on provincial and autonomous regions' quotas for wind energy to obtain more wind resources in seeking more production orders for wind turbines, thereby increasing our market share. At present, the Group has considerable wind energy resources in various major wind power bases planned by the State, including Wulatehouqi in Inner Mongolia, Jiuquan City and Wuwei City in Gansu, Ningde City in Fujian, Chuxiong City in Yunnan and Tieling City in Liaoning, laying a robust foundation for the Group's batch production of wind turbines during the year, which in turn will bring in promising income to the Group.

Since the directdrive wind turbines are characterized by gearless drive, the use of low-speed large-torque generators, full-power convertor and strong resistance to grid voltage fluctuations, their advantages include low wear and tear, high efficiency of electricity generation, small size, light weight, easy to maintain and low operating cost when compared with the traditional wind turbines. As such, the directdrive wind turbines, in particular, the 1.5MW and 2MW excitation magnetic directdrive wind turbines being launched mainly by the Group from now onwards have visible optimism in the market. In addition, the AC-DC-AC total inverter grid-connection technology employed by directdrive wind turbines can meet the standards under the "Design regulations for grid-connection technology of large-scale wind farms issued by National Energy Administration in 2011, which provided a series of requirements such as low-voltage ride-through, grid compatibility and power test, bringing rare opportunities to the Group's wind turbine business.

In 2012, the Group sold a total of 16 sets of 2MW wind turbine and 143 sets of 1.5MW wind turbine.

Meanwhile, the Group also successfully entered into sales contracts for 240,000 KW 2MW excitation magnetic directdrive wind turbine (120 sets) which will be delivered in 2013, including the sales contract for 200,000 KW 2MW excitation magnetic wind turbines in Yumen City, Gansu, with Huadian New Energy and the sales contract for 40,000 KW 2MW excitation magnetic wind turbines in Xiapu City, Fujian, with Energine Min Jian.

Research and Development of Technology

During the first half of 2012, the Group has identified 1.5MW and 2MW excitation magnetic directdrive wind turbines as its flagship products in the future. Based on wind farm conditions such as wind speed, air density and altitude, we researched and developed 1.5MW excitation magnetic directdrive wind turbines with wind wheel diameters of 77, 83 and 88 meters and 2MW excitation magnetic directdrive wind turbines with wind wheel diameters of 90, 93, 97 and 101 meters.

In September 2011, the Group established a science and technology committee, which formed a research and development project team on 2MW excitation magnetic directdrive wind turbines to undertake the special research on intellectual property of 2MW excitation magnetic directdrive wind turbines. The Group has applied for 4 patents for invention and 7 patents for utility model and registered 5 softwares in relation to wind energy in 2012. One of the invention patents was recognized as outstanding invention by the China Academy of Launch Vehicle Technology ("CALT"). We completed the installation of the prototype of 2MW excitation magnetic directdrive wind turbine in June 2012, which is currently in good operating condition at full capacity. In 2013, a project on the research and development of 3MW permanent-magnet directdrive wind turbine will be pursued.

Production Management

In 2012, during the process of batch production of 1.5MW excitation magnetic and 2MW permanent magnetic directdrive wind turbines, the management system and business process suitable for batch production were further improved. The Group has clearly clarified the driving department for the management of scientific research and production with enhanced management planning. Through special project plan and deployment manoeuvring, orderly batch production of wind turbines was ensured under the guidance of the plans. The management procedure was reorganized with clear-cut definition of responsibilities and duties between different departments. Thus we can achieve efficient operation of personnel movement, logistics, cash flows and information flows in the various processes of sales, planning, design, production, purchasing and finance, as well as effective closed-loop management and control.

In 2012, the Group's focus of production management was on strengthening of quality assurance management. The Group improved all aspects of quality control according to the characteristics of directdrive wind turbines and formulated the Procedures for the Treatment of the Parts and Components with Abnormal Quality, the Procedures for the Treatment of the Wind Farm with Abnormal Quality and the Procedures for the Treatment of the Plant with Abnormal Quality. Also, the Group established the Quality Tracking System for the Installation of Wind Turbines which needed measures to be taken to follow up and confirm the effects in a timely manner. Furthermore, the Group organized quality engineers to prepare the quality control requirements for the parts and components according to the degree of importance and the level of risk of various parts and components, and specified the quality requirements for, among others, the manufacturing, testing, inspection, packaging and delivery of the parts and components, based on the national standards and technical specifications. In addition, the Group included the quality requirements for the parts and components in contracts, which resulted in the advancement of quality control and the increased emphasis on product quality by suppliers, hence product quality was effectively improved, quality disputes were reduced and product quality risk was lowered. The Group successively completed the preparation of the quality control requirements for key parts and components of the 1.5MW excitation magnetic wind turbines, 2MW permanent magnetic wind turbines and 2MW excitation magnetic wind turbines, and established a team of quality engineers in order to enhance the detection capacities for the parts and components through purchase of the detection equipment, provide scientific basis for the evaluation of quality of large parts and components for acceptance such as the nacelle, hub and tower of wind turbines and ensured the quality of the wind turbine assembling.

The Group focused its efforts on the strengthening of the safety check and risk management. The Group implemented the comprehensive supervision and inspection on subsidiaries and investigated 29 potential safety risks, carried out the monthly safety self-inspection activities and thoroughly investigated the potential safety risks down-to-earth with "zero tolerance", organized the staff to study the safety risks at various posts, proper preventive measures and emergency treatment measures, and carried out drills on the fire safety emergency plan in the Inner Mongolia Industrial Park which effectively improved the emergency treatment capacities of the front-line staff. Safety slogans and logos were posted, and various safety promotion materials were distributed at public places, staff dormitory and production workshops of each plant zone of subsidiaries. Experienced safety officers were hired to give safety training lectures. Safety knowledge tests were carried out on all middle-level executives of the Group and all the staff were educated on safety during festival days. Subsidiaries under the Group had signed production safety notifications with all of their staff, which not only enhanced the safety awareness of the staff, but also further refined the production safety management and ensured that no material accidents occurred throughout the year.

Trading of Materials

In 2012, BEI continued the trading business of chemical raw materials in connection with production of wind turbine blades and recorded a significant increase.

Wind Farm Operations

The Group's wind farm operations comprise a wind farm controlled and operated by the Group in the CASC Long Yuan (Benxi) wind farm of Liaoning Benxi, installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW; three wind farms invested and constructed by the Group: the Jilin Tongyu wind farm of Jilin Longyuan, installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW; the Jiangsu Rudong wind farm of Jiangsu Longyuan, installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW and the Datang Wanyuan Xinghe wind farm of Inner Mongolia Xinghe, installed with 55 sets of 900KW directdrive wind turbines with a capacity of 49,500KW.

In addition, Energine Min Jian New Energy Investment Co., Ltd., the Group's associated company, formally engaging in offshore and land wind power projects in eastern Fujian through its subsidiary, Yingkou Wind Power Generation Co., Ltd., secured market orders for the Group for the purchase of 2MW directdrive wind turbine models produced by the Group.

Business of New Materials

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Group, is a high-tech enterprise which specializes in the research and development, manufacture, and sales of rare-earth permanent-magnet gearless traction machines for elevators. The "航天萬源" branded rare-earth permanent-magnet gearless traction machines and its driving control system researched and developed by the company itself had filled the technological gap of the domestic gearless elevator sector.

Wuxi CASC Energine Xindali Electricity Co., Ltd. ("Wuxi Wind Turbine Plant"), the Group's associated company, is engaged in batch production of 900KW and 1.5MW generators. Its self-developed 1.5MW excitation magnetic directdrive wind power generator, with application of many new technologies, was awarded the First Prize of Outstanding Contribution to Science and Technology Progress in 2011 by CALT. Therefore, the Group is equipped with the internal capacity to supply core parts and components of wind turbines, including blades and generators, thereby reducing its reliance on upstream suppliers of the wind turbine supply chain for purchasing generators and controlling the supply risk of the wind turbine supply chain and production cost.

Business of Automotive Component Parts

Automotive engine management systems

Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd, a jointly controlled entity, is a leading supplier in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide and supplies to almost all major domestic automobile manufacturers. As for export sales, its products are sold to automobile manufacturers in Europe and North America.

The jointly controlled entity recorded sales revenue of HK$3,351.56 million in 2012, representing an increase of HK$302.11 million year-on-year. Its sales expansion and costs reduction were successfully achieved.

Automotive sealing systems

Beijing Wanyuan-Henniges Sealing Systems Co., Ltd., a jointly controlled entity, is a company specializing in manufacturing of medium-to-high class automotive sealing products in the domestic market. Its quality control standards are on par with the international advanced level. The jointly controlled entity not only realized the development and ancillary items to the medium-to-high class models in the domestic market, but also attained the system standards applicable to Germany, France, United States, Japan and South Korea with its products.

The jointly controlled entity recorded sales revenue of HK$763.48 million in 2012, representing an increase of HK$186.24 million year-on-year.

Corporate Social Responsibility

The Group always lives up to its corporate culture: we have been devoted to projects on new energy, energy conservation and environmental protection in the areas of renewable power generation and carbon emission control in adhering to the principles of protecting the Earth and ecological environment insistently and our mission of contributing to society and benefitting mankind. Relentless efforts have been made to pursue excellence in quality in research and development and production of wind turbines so as to strengthen the CASC brand and earn customers' trust. In the aspect of management, risk management and compliance system were strengthened to ensure sustainable development. Employees' talents were fully utilized with a win-win strategy for harmony to nurture an outstanding corporate team in the course of fully fulfilling our social responsibilities.

The Hong Kong Stock Exchange made changes to the Corporate Governance Code set out in the Listing Rules in 2012. The principal aim of the amendments was to encourage better accountability of listed companies and directors, including the improvement in transparency by bolstering requirements for disclosure and communication with shareholders; enhancing the quality of directors and company secretaries by imposing training requirements; increasing the influence of independent non-executive directors in committees under the board of listed companies; recognizing the effect of company secretaries in corporate governance and defining their roles and responsibilities; and placing emphasis on the leadership role of the chairman of the board in corporate governance matters. The Company's Code on Corporate Governance was amended accordingly and relevant system was implemented as scheduled. Through enhancing the supervisory power of independent non-executive directors on corporate governance matters, establishing and strengthening the responsibilities and powers of the company secretary and the internal audit team in compliance with the new requirements under the Listing Rules, a higher standard of corporate governance was established. In January 2013, the original price sensitive information policy and procedure was amended as inside information policy and procedure for compliance with the revised Securities and Futures Ordinance and the corresponding amendments in the Listing Rules.

In 2012, the establishment of a professional team system was bolstered; the Group organized 43 training sessions with employee participation of more than 300 persons and more than 1,500 training hours in total, training expenses amounted to approximately RMB460,000. The purpose was to strengthen and improve the management of the Group's managerial personnel, enhance management in a scientific, systematic and regularised manner, in order to develop a high-quality professional team. The Group also formed the "Home for Eligible staff" to provide assistance to those staff in difficulties, delivered integrity education and strengthened the anti-corruption ethics system.

PROSPECTS

Research and development on graphene technology

In May 2012, the Company entered into agreements on joint research and development with various international and domestic renowned colleges, institutions and corporations in an effort to realize batch production of high-quality graphene and high-performance energy storage battery pack leveraging on their proprietary graphene extraction technology. Graphene, a kind of new material with singular flake structure composed of carbon atoms, is one of the best conductive materials in the world. The anode material of lithium ion battery made by graphene is able to significantly increase the energy storage capacity and shorten charging time of the battery, thus effectively resolving the bottleneck problem of applying lead-acid battery and traditional lithium ion battery to electric vehicles. The energy storage device of graphene is characterized by extra-long recycling life and high current during the process of charging and discharging, therefore there is huge market room of graphene-based new battery anode material and super capacitor under the research and development. Currently, the above research work has achieved certain stage results, and industrial production of the establishing project will commence after substantive results have been achieved later this year.

Looking ahead, the Group will continue to improve the progress in domestic production of wind turbines, focus on the development of 3MW and 5MW wind turbines in line with the Twelfth Five-year Plan to capture the future market share of wind turbines and increase cooperation opportunities with other large-scale power generation groups, refine the batch production of rare-earth motors and secure financing for the Group. We will further expand the scale of energy conservation and environmental protection business as well as strengthen our internal management to ensure the sustainable development of the Group and create greater benefits for shareholders in wealth and good reputation.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2012, the Group had 33 employees (2011: 35 employees) in the Hong Kong head office and 674 employees (2011: 463 employees) in the Mainland China offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total borrowings of the Group as at 31 December 2012 were HK$1,836,702,000 (2011: HK$1,326,948,000), of which HK$530,048,000 (2011: HK$454,548,000) was floating-rate borrowings and the remaining was fixed-rate. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Gearing ratio (total borrowings over shareholders' equity) as at 31 December 2012 was 103% (2011: 77%).

Pledge of Assets

As at 31 December 2012, certain assets of the Group of HK$24,947,000 (2011: HK$22,606,000) have been pledged to secure bank facility.

Exchange and Other Exposures

Most of the Group's business transactions were conducted in Renminbi. The Group expected that the exposure to exchange rates fluctuation was not significant and therefore has not engaged in any hedging activities.

Contingent Liabilities

As at 31 December 2012, the Group has issued guarantees to banks in respect of banking facilities in the amount of HK$22,573,000 (2011: nil) and HK$24,665,000 (2011: nil) granted to a third party and an associate respectively, of which HK$24,665,000 (2011: nil) has been utilised.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

CORPORATE GOVERNANCE

Corporate Governance Code

The Group has complied with all principles as set out in the Corporate Governance Code in Appendix 14 of the Rules Governing the Listing of Securities (the"Listing Rules") on the Stock Exchange of Hong Kong Limited (the "Code"), which became applicable to the Group in respect of the year under review, and complied with the relevant code provisions in the Code throughout the year ended 31 December 2012, with the exception of one deviation from the Code Provision A.4.1 of the Code which stipulates that Non-executive Directors should be appointed for a specific term subject to re-election. All of the Non-executive Directors of the Company are not appointed for a specific term, except that Independent Non-executive Directors are of a fixed term of 3 years, but are subject to retirement and rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the retirement provisions under the Articles of Association of the Company. The Company considers that sufficient measures have been taken in this regard to ensure that the Group's corporate governance practices are no less exacting than those in the Code.

Model Code for Securities Transactions by Directors

During the year 2012, the Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Group by the Directors. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code throughout the year.

Independent Non-executive Directors

There are currently three Independent Non-executive Directors. During the year ended 31 December 2012, the Board at all times met the requirements of the Rules 3.10(1) and 3.10(2) and 3.10A of the Listing Rules in appointment of a sufficient number of three Independent Non-executive Directors, representing one third of the Board, one of whom has appropriate professional qualifications, accounting and financial management expertise.

Audit Committee

During the year 2012, the Audit Committee consisted of three Independent Non-executive Directors plus a Non-executive Director. The written terms of reference which describe the authority and duties of the Audit Committee was updated on 30 March 2012 to align with Code provisions. The Audit Committee is responsible for the appointment of external auditor, review of the Group's financial information and oversight of the Group's financial and accounting practices, internal control and risk management. It is also responsible for reviewing the interim and annual results of the Group. The audited financial statements for the year ended 31 December 2012 have been reviewed by the Audit Committee.

PUBLICATION OF ANNUAL REPORT

A full text of the Company's 2012 Annual Report will be sent to the shareholders and published on the websites of The Stock Exchange of Hong Kong Limited and of the Company in due course.

By Order of the Board
Han Shuwang
Chairman

Hong Kong, 27 March 2013

As at the date hereof, the Board of the Company comprises Mr. Han Shuwang (Chairman), Mr. Wang Xiaodong (Vice-Chairman), Mr. Li Guang and Mr. Wang Lijun as Executive Directors; Mr. Fang Shili and Ms. Zhang Jianhua as Non-executive Directors; Mr. Wang Dechen, Ms. Kan Lai Kuen, Alice and Mr. Gordon Ng as Independent Non-executive Directors.

* *For identification purpose only*