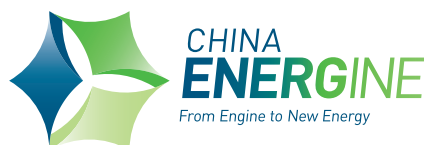


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CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

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 2011

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 2011 as follows:

Consolidated Statement of Comprehensive Income

For The Year Ended 31 December 2011

	NOTE	2011 HK\$'000	2010 HK\$'000
Turnover	2	406,285	698,083
Cost of sales		(381,730)	(677,882)
Gross profit		24,555	20,201
Other income		23,678	60,323
Other gains and losses		(5,062)	(12,258)
Selling and distribution expenses		(20,193)	(20,777)
Administrative expenses		(114,884)	(148,142)
Increase in fair value of investment property		5,640	6,612
Finance costs	4	(62,013)	(52,997)
Share of results of associates		15,689	33,689
Share of results of jointly controlled entities		145,813	140,213
Impairment loss recognised in respect of goodwill		—	(7,284)
Reversal of impairment loss recognised in respect of interest in a jointly controlled entity		—	102,632
Profit before taxation	5	13,223	122,212
Taxation	6	(11,318)	(20,128)
Profit for the year		1,905	102,084

	2011	2010
<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income:		
Exchange differences arising on translation to presentation currency	56,541	25,176
Total comprehensive income for the year	58,446	127,260
Profit for the year attributable to:		
Owners of the Company	11,472	96,065
Non-controlling interests	(9,567)	6,019
	1,905	102,084
Total comprehensive income attributable to:		
Owners of the Company	64,921	119,618
Non-controlling interests	(6,475)	7,642
	58,446	127,260
Earnings per share - Basic	7	HK0.29 cents
		HK2.42 cents

Consolidated Statement of Financial Position

At 31 December 2011

	<i>NOTE</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Non-current assets			
Investment property		37,680	30,972
Property, plant and equipment		450,099	373,659
Deposits paid for acquisition of property, plant and equipment		14,293	17,688
Goodwill		4,903	4,903
Intangible asset		69,842	—
Deferred tax assets		3,985	5,022
Interests in associates		370,566	323,960
Interests in jointly controlled entities		1,272,882	1,222,069
Fixed bank deposits		—	11,996
		<hr/> 2,224,250 <hr/>	<hr/> 1,990,269 <hr/>
Current assets			
Inventories		469,638	129,931
Trade and other receivables	9	558,342	422,749
Amounts due from associates		45,856	3,457
Amounts due from jointly controlled entities		161,795	80,880
Pledged bank deposits		22,606	32,644
Fixed bank deposits		12,409	—
Bank balances and cash		356,562	450,061
		<hr/> 1,627,208 <hr/>	<hr/> 1,119,722 <hr/>

		2011	2010
	<i>NOTE</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Current liabilities			
Trade and other payables	10	525,090	258,651
Amounts due to associates		63,708	518
Government grants		249	240
Taxation payable		1,674	816
Warranty provision		22,380	18,491
Borrowings - amount due within one year		530,400	730,800
		<u>1,143,501</u>	<u>1,009,516</u>
Net current assets		<u>483,707</u>	<u>110,206</u>
Total assets less current liabilities		<u>2,707,957</u>	<u>2,100,475</u>
Non-current liabilities			
Borrowings - amount due after one year		796,548	315,520
Deferred tax liabilities		19,188	17,979
Government grants		7,830	7,809
		<u>823,566</u>	<u>341,308</u>
		<u>1,884,391</u>	<u>1,759,167</u>
Capital and reserves			
Share capital		396,900	396,900
Reserves		1,327,124	1,262,203
Equity attributable to owners of the Company		<u>1,724,024</u>	<u>1,659,103</u>
Non-controlling interests		160,367	100,064
Total equity		<u>1,884,391</u>	<u>1,759,167</u>

Notes to the Consolidated Financial Statements

For the year ended 31 December 2011

1. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related party disclosures
Amendments to HKAS 32	Classification of rights issues
Amendments to HK(IFRIC)-INT 14	Prepayments of a minimum funding requirement
HK(IFRIC)-INT 19	Extinguishing financial liabilities with equity instruments

Except as described below, the application of the new and revised 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.

HKAS 24 Related party disclosures (as revised in 2009)

HKAS 24 (as revised in 2009) has been revised on the following two aspects: (a) HKAS 24 (as revised in 2009) has changed the definition of a related party and (b) HKAS 24 (as revised in 2009) introduces a partial exemption from the disclosure requirements for government-related entities.

The Company and its subsidiaries are government-related entities. In its annual consolidated financial statements for the year ended 31 December 2010, the Group had applied early the partial exemption from the disclosure requirements for government-related entities. In the current year, the Group has applied for the first time the revised definition of a related party as set out in HKAS 24 (as revised in 2009), which resulted in the identification of related parties that were not identified as related parties under the previous standard.

HKAS 24 (as revised in 2009) requires retrospective application. The application of HKAS 24 (as revised in 2009) has had no impact on the Group’s related party disclosures.

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 HKFRS 7	Disclosures - Transfers of financial assets ¹
Amendments to HKFRS 7	Disclosures - Offsetting financial assets and financial liabilities ²
Amendments to HKFRS 7 and HKFRS 9	Mandatory effective date of HKFRS 9 and transition disclosures ³
HKFRS 9	Financial instruments ³
HKFRS 10	Consolidated financial statements ²
HKFRS 11	Joint arrangements ²
HKFRS 12	Disclosure of interests in other entities ²
HKFRS 13	Fair value measurement ²
Amendments to HKAS 1	Presentation of items of other comprehensive income ⁵
Amendments to HKAS 12	Deferred tax - Recovery of underlying assets ⁴
HKAS 19 (as revised in 2011)	Employee benefits ²
HKAS 27 (as revised in 2011)	Separate financial statements ²
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures ²
Amendments to HKAS 32	Offsetting financial assets and financial liabilities ⁶
HK(IFRIC) - INT 20	Stripping costs in the production phase of a surface mine ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual periods beginning on or after 1 January 2013.

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

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

⁵ Effective for annual periods beginning on or after 1 July 2012.

⁶ Effective for annual periods beginning on or after 1 January 2014.

2. TURNOVER

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

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Sales of goods	181,077	383,026
Sales of electricity from operation of wind power field	28,423	32,228
Sales of wind energy related products	196,785	264,745
Revenue from services	—	18,084
	<hr/> 406,285 <hr/>	<hr/> 698,083 <hr/>

3. SEGMENT INFORMATION

Information reported to the Board of Directors of the Company, 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.

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 2011

	Wind Energy		REPM	Trading of	Tele-	
	Related	Operation	Products	Materials	Business	Consolidated
	Products	of Wind Farm	Products	Materials	Business	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER						
External sales	<u>196,785</u>	<u>28,423</u>	<u>28,953</u>	<u>106,768</u>	<u>45,356</u>	<u>406,285</u>
RESULT						
Segment result	<u>(58,234)</u>	<u>39,026</u>	<u>(13,836)</u>	<u>724</u>	<u>(7,426)</u>	<u>(39,746)</u>
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						<u>146,358</u>
Profit before taxation						<u><u>13,223</u></u>

For the year ended 31 December 2010

	Wind Energy Related Products <i>HK\$'000</i>	Operation of Wind Farm <i>HK\$'000</i>	REPM Products <i>HK\$'000</i>	Trading of Materials <i>HK\$'000</i>	Tele- communication Business <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
TURNOVER						
External sales	264,745	32,228	52,577	272,551	75,982	698,083
RESULT						
Segment result	(30,583)	63,899	(22,051)	2,166	(43,882)	(30,451)
Unallocated corporate expenses						(56,935)
Unallocated other income						7,479
Finance costs						(52,997)
Increase in fair value of investment property						6,612
Reversal of impairment loss recognised in respect of interest in a jointly controlled entity						102,632
Share of results of jointly controlled entities						145,872
Profit before taxation						122,212

Geographical information

The Group's operations are located in Hong Kong and other regions of the PRC.

The Group's revenue from external customers are detailed below:

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Other regions of the PRC	378,153	676,293
Hong Kong	4,630	924
United States of America	16,250	17,690
Others	7,252	3,176
	406,285	698,083

4. FINANCE COSTS

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest on bank and other loans:		
- wholly repayable within five years	57,207	48,140
- not wholly repayable within five years	4,806	4,857
	<u>62,013</u>	<u>52,997</u>

5. PROFIT BEFORE TAXATION

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging:		
Directors' emoluments	5,860	3,991
Other staff costs	42,244	56,303
Other staff's retirement benefits scheme contributions	4,778	5,014
	<u>52,882</u>	<u>65,308</u>
Auditor's remuneration	3,000	2,900
Amortisation of an intangible asset	1,996	—
Cost of inventories recognised as an expense (including allowance for obsolete inventories of HK\$1,479,000 (2010: HK\$8,050,000))	356,182	657,995
Depreciation of property, plant and equipment	30,923	30,536
Less: Amounts capitalised in inventory	<u>(2,988)</u>	<u>—</u>
	<u>27,935</u>	<u>30,536</u>
Minimum lease payments under operating leases in respect of land and buildings	6,081	9,438
Research and development expenses	<u>7,728</u>	<u>6,818</u>

6. TAXATION

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Tax charge for the year comprises:		
PRC Enterprise Income Tax	9,103	17,197
Deferred tax charge	2,215	2,931
	11,318	20,128

The reconciliation of tax charge for the year to the profit before taxation is as follows:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit before taxation	13,223	122,212
Tax charge at PRC Enterprise Income Tax rate of 25% (2010: 25%)	3,306	30,553
Share of results of associates and jointly controlled entities	(40,376)	(43,476)
Tax effect of expenses not deductible for tax purpose	11,560	10,462
Tax effect of deductible temporary differences not recognised	2,880	3,845
Tax effect of income not taxable for tax purpose	(4,842)	(40,885)
Tax effect of losses not recognised	26,972	50,455
Utilisation of tax losses previously not recognised	(3)	(2,264)
Tax effect of temporary differences attributable to undistributed profits of PRC subsidiaries	2,986	9,302
Effect of different tax rates of subsidiaries operating in other jurisdictions	9,776	3,134
Effect of tax concessions/exemptions granted to a subsidiary in the PRC	(941)	(998)
Tax charge for the year	11,318	20,128

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit 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% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulations in the PRC, one of the Company's PRC subsidiaries is exempted from PRC income tax for two years starting from year 2007, which was their first profit-making year, followed by a 50% reduction for the next three years.

7. EARNINGS PER SHARE - BASIC

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

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Earnings for the purpose of basic earnings per share	<u>11,472</u>	<u>96,065</u>
	Number of shares	
	2011	2010
Weighted average number of shares for the purposes of basic earnings per share	<u>3,968,995,668</u>	<u>3,968,995,668</u>

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

8. DIVIDEND

No dividend was paid or proposed during the year ended 31 December 2011, nor has any dividend been proposed since the end of the reporting period (2010: Nil).

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$169,502,000 (2010: HK\$177,392,000) net of allowance for doubtful debts of HK\$70,143,000 (2010: HK\$147,185,000). The amount of trade receivables at 31 December 2011 included retention receivables for the sales of wind turbines to third parties of HK\$28,624,000 (2010: HK\$27,670,000). The balances will be settled upon the completion of warranty period of 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 the invoice date at the end of the reporting period:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	48,503	136,274
Between 31 - 90 days	7,740	24,258
Between 91 - 180 days	3,821	9,408
Between 181 - 365 days	389	5,125
Over 1 year	<u>109,049</u>	<u>2,327</u>
	<u>169,502</u>	<u>177,392</u>

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$75,635,000 (2010: HK\$16,860,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The average age of these receivables is 365 days (2010: 365 days).

Ageing of trade receivables which are past due but not impaired:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Between 0 - 90 days	3,821	9,408
Between 91 - 180 days	389	5,125
Over 180 days	71,425	2,327
	<hr/>	<hr/>
Total	75,635	16,860
	<hr/> <hr/>	<hr/> <hr/>

The Group will normally provide fully for all receivables overdue 365 days because historical experiences is such that receivables that are past due 365 days are generally not recoverable, except for some major customers with longer credit terms at the discretion of the executive directors.

Movement in the allowance for doubtful debts:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Balance at beginning of the year	147,185	144,202
Amounts written off during the year as uncollectible	(2,916)	(4,349)
Disposal of a subsidiary	(84,507)	—
Impairment losses recognised in respect of trade receivables	10,381	7,332
	<hr/>	<hr/>
Balance at end of the year	70,143	147,185
	<hr/> <hr/>	<hr/> <hr/>

The balance of the allowance for doubtful debts are individually impaired trade receivables which have been overdue 365 days or/and have no material transactions with the Group during the year. The Group does not hold any collateral over these balances.

Before accepting any new customer, the Group's executive directors and marketing team would assess the potential customer's credit quality and defines credit limits by customer. Limits attributed to customers are reviewed regularly with reference to past settlement history. 64% (2010: 90%) of the trade receivables that are neither past due nor impaired have the best credit history managed by the Group's marketing team.

Included in the Group's other receivables at 31 December 2011 are dividend receivable from a jointly controlled entity of HK\$7,118,000 (2010: HK\$12,969,000), deposits for purchase of inventories for subsidiaries in the PRC of HK\$85,013,000 (2010: HK\$12,496,000) and bills receivable of HK\$121,696,000 (2010: HK\$110,581,000). All bill receivables of the Group are aged within 90 days for both years.

In addition, included in the Group's other receivables at 31 December 2010 was receivable from disposal of associates of HK\$12,890,000. They are settled in the year 2011.

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$246,043,000 (2010: HK\$166,585,000). 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 reporting period:

	2011	2010
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	223,628	112,434
Between 31 - 90 days	11,720	33,471
Between 91 - 180 days	2,598	5,118
Between 181 - 365 days	3,069	3,167
Over 1 year	5,028	12,395
	<u>246,043</u>	<u>166,585</u>

Included in the Group's other payable at 31 December 2011 are accruals for construction work of HK\$11,739,000 (2010: HK\$14,227,000), dividend payables to non-controlling interests of HK\$5,220,000 (2010: HK\$4,176,000) and receipt in advance from customers of HK\$122,905,000 (2010: HK\$19,745,000).

RESULTS SUMMARY

As of 31 December 2011, the Group's turnover for the year 2011 amounted to HK\$406.29 million with a profit for the year attributable to the Company's owners of HK\$11.47 million as compared to those for the year 2010 of HK\$698.08 million with a profit for the year attributable thereto of HK\$96.07 million respectively, representing 42% decrease in turnover and 88% decrease in profit for the year. The turnover for the year comprised sale of wind energy related products of HK\$196.79 million, sale of electricity generated from wind farm of HK\$28.42 million, sale of rare earth permanent-magnet motor products of HK\$28.95 million, sale of chemical materials of HK\$106.77 million and sales of HK\$45.36 million related to telecommunication business whereas the turnover in 2010 comprised sale of wind energy related products of HK\$264.75 million, sale of electricity generated from wind farm of HK\$32.23 million, sale of rare-earth permanent-magnet motor products of HK\$52.58 million, sale of chemical materials of HK\$272.55 million and sales of HK\$75.98 million related to telecommunication business.

The decrease in turnover was mainly due to the Group's focusing resources on core wind energy main business and controlling the impact arising from strong price volatility of trading material resulting in the scale reduction of trading material and telecommunication business by HK\$196.41 million in total plus the impact on wind turbine sales from the control on the delivery progress thanks to the rise of rare earth magnetic steel price. The said profit for the year was mainly attributable to profit contribution of a jointly controlled entity relating to automotive component business of HK\$157.96 million and the profit contribution of HK\$39.03 million from operation of wind farm. The decrease in the profit for the year was mainly attributable to a reversal of impairment loss in relation to the carrying amount of the said jointly controlled entity of HK\$102.63 million in last year, which yet did not have cash flow impact. There was not such a reversal in the year 2011 and there would be an increase in profit attributable to owners by HK\$18.04 million excluding such reversal in consideration.

BUSINESS REVIEW

Business of Wind Energy

In 2011, the directdrive wind turbine, on the strength of its simple structure, high reliability, high efficiency and low operation and maintenance costs, had participated in the fierce competition in the domestic wind turbine market. Facing price drops in the market, the Group proactively addressed these challenges by giving full play to the advantages of the technology, quality and service of CASC directdrive wind turbines. In line with this, 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 cost effectiveness. In addition, through Inner Mongolia Wind Turbine General Assembling Plant, Gansu Wind Turbine General Assembling Plant and Jiangsu Energin Wind Turbine General Assembling Plant, the Group adopted the strategy of establishing good relationship with several provincial and autonomous region governments and leveraging 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.

In 2011, the Group attained wind energy resource reserves of more than 1 million KW in the environment of slowdown of the industrial growth, laying a solid foundation for the future business development of the Group.

Since the directdrive wind turbines have gearless drive and are characterised with the use of low-speed large-torque generators and full-power convertor and strong resistance to grid voltage fluctuation, their advantages include low wear and tear, high efficiency of electricity generation, small size, light, ready to repair and low operating cost as compared to the traditional wind turbines. As such, the directdrive wind turbines, in particular, the permanent-magnet directdrive wind turbines featuring proprietary intellectual property rights, high quality and renowned Aerospace brand names, have well been received by domestic and foreign large-scale wind farm developers.

2011 saw the strong price volatility of rare-earth materials, the major materials of wind turbines. Before October, the price of rare-earth magnet significantly rose. The Group developed excitation magnet directdrive makes in effort to avoid the greater impact thereof on the results of the Group. Meanwhile, the Group proactively controlled the progress of wind turbine production and delivery, thereby the sales falling short of the expectation. In 2011, the Group sold a total of 24 2MW wind turbines to the wind farms in Baiyin City and Gaizhou City. Currently, the price of rare-earth magnet has fallen by around 50% such that the impact has been substantially reduced. The contracts entered into in 2011 by the Group are expected to commence deliveries in 2012 continuously.

In December 2011, Beijing Energin Industry Co. Ltd. (“BEI”, a wholly-owned subsidiary of the Group) entered into an agreement on the establishment of a joint venture, namely Gaizhou Energin Wind Power Co. Ltd. (“Gaizhou Wind Power”) for the development and operation of wind farms. Gaizhou Wind Power has a registered capital of RMB171.07 million which are held as to 40%,30%,28% and 2% respectively by BEI, Zhongneng Huali Investment Co. Ltd., Suzhou Tepu Wind Energy Technology Co. Ltd. (“Suzhou Tepu”), and Liaoning Juzi Industrial Co., Ltd. in which BEI contributed RMB68.43 million. Gaizhou Wind Power is to construct and operate two wind farms in Gaizhou City, Liaoning, i.e. Gaizhou Xutun Aerospace Wind Farm and Gaizhou Tazigou Wind Farm, each having a capacity of 48MW, securing production orders of wind turbines for the Group. According to the agreement, Zhongneng Huali is obliged to purchase 30% equity out of the 40% equity of Gaizhou Wind Power to be held by BEI within 12 months after connection of grid for electricity delivery has commenced operation at a consideration equal to an appraisal value but no less than the apportioned capital amount plus its capital gain to be calculated at a rate of 10% per annum from the capital injection date, leaving BEI holding 10% equity thereafter.

In the same month, BEI entered into a shareholder agreement for establishing Suzhou Energin Tepu Wind Energy Technology Ltd. (“Suzhou Wind Energy”) in relation to manufacture and sales of directdrive wind turbines. The joint venture has a registered capital of RMB200 million and was held as to 35%, 30%, 15%, 15% and 5% respectively by BEI, Suzhou Tepu, Suzhou Technology Town Start-up Business Investment Co. Ltd., Suzhou Sanke Investment Management Co. Ltd. and Suzhou Sanhuan Investment Management Co. Ltd.. in which BEI contributed RMB70 million. BEI has the right to assign 3 directors out of the total 5-director board, i.e. more than 50% directorship therein

of Suzhou Wind Energy, which therefore became a non-wholly owned subsidiary of the Group. Suzhou Wind Energy is to be engaged in the manufacture and sales of wind turbines in Suzhou, Jiangsu in production of 2MW double-fed and 1.5MW excitation magnet directdrive wind turbines. The capacity of the annual production of the plant of Suzhou Wind Energy will reach 500 sets of 2MW double-fed directdrive wind turbines and 200 sets of 1.5MW excitation magnet directdrive wind turbines, reflecting the Group's expansion of its core business in terms of markets in Jiangsu and the East China region and of wind turbine makes offering to customers.

Research and Development of Technology

As to the Group's self-developed turbine control systems, grid-connection for operation of 900KW wind turbines with self-developed control system has commenced. The success of the self-developed control systems enabled the Group to stop relying on foreign control systems and respond promptly to customer needs, thereby greatly reduced the costs of production for wind turbines and technical services relating thereto.

As to the 2MW permanent-magnet wind turbines, the machine loading calculation, turbine tower design, assembling parts design and blade design passed the evaluation and appraisal by German Wind Power Certification Center (DEWI-OCC) and were granted certifications in relation thereto in 2010, and would be granted design certification by China General Certification Center ("CGC") after going through the design documents evaluation and completing the blade testing. In 2011, for certification of 2MW permanent-magnet directdrive wind turbine, the Group had completed power quality testing, power curve testing, blade fatigue testing with 2 million swings, plant manufacturing capacity evaluation and prototype safety and functional testing.

For 1.5MW wind turbine, the Group had carried out control strategy optimisation as well as made specific modifications on technical documents including the batch production drawings for 1.5MW wind turbine. The certification program of 1.5MW wind turbine prototype had already been confirmed by CGC, and the Group had completed amendment on the relevant mechanical and electrical drawings and the structural parts loading calculations according to the certification requirements, and had submitted all the information necessary for wind turbine design certification to CGC.

At present, the 1.5MW wind turbine, with the initial optimisation completed and technology status confirmed, has commenced batch production of a total of 66 sets of 100,000 KW 1.5MW wind turbines. As regards 2MW wind turbine, batch production has commenced as the Group had determined the product make series adapt to wind farms of middle-to-low wind capacity as well as seashore environment, with adaptable technological design to cope with the needs of different wind farms and wind conditions.

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 turbine to conduct an in-depth research and study. Meanwhile, the preliminary design and feasibility study on 3MW new directdrive wind turbine has commenced.

Production Management

In 2011, pursuant to the Group's production and operation plans, the Group had set up task forces for different makes to strengthen the management and control of personnel, technology, progress, quality and risk in ensuring the smooth completion of projects relating to the batch production of 2MW and 1.5MW wind turbines with the planned cost, schedule and quality. A series of regulated procedures formulated by the Group, including "the Methods for the Implementation and Management of Batch Production of Wind Turbines", "Methods for Deployment Management of Production Plans" and "Detailed Plan on Batch Production of Wind Turbines", had been continuously improved during the implementation process in clarifying the job responsibilities and progress requirements, thus ensuring the completion of production of directdrive wind turbines.

Trading of materials

In 2011, BEI continued the trading business of chemical raw materials in connection with production of wind turbine blades. However, the scale of the material trading business significantly shrunk in effort to control the risk arising from the strong price volatility of the material trade. The sale recorded a considerable decrease consequently.

Wind Farm Operations

Liaoning Benxi

The CASC Long Yuan (Benxi) wind farm project, controlled and operated by the Group, is installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW in total.

An electricity level of 47.27 million kwh was realised during 2011, representing a decrease of 8.18 million kwh over last year. On-grid power generation amounted to 45.90 million kwh with realised income from principal activity of HK\$29.14 million, representing a decrease of HK\$3.09 million over last year, realising a profit amounting to HK\$7.58 million.

Jilin Longyuan

The Jilin Tongyu wind farm, invested and constructed by the Group, is installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW in total.

An electricity level of 281.55 million kwh was realised during 2011, representing a decrease of 60.55 million kwh from last year. On-grid power generation amounted to 275.44 million kwh with realised income from principal activity of HK\$155.64 million, representing a decrease of HK\$27.30 million over last year, realising a profit amounting to HK\$30.34 million.

Jiangsu Longyuan

The Jiangsu Yudong wind power field project, invested and constructed by the Group, is installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW.

An electricity level of 335.90 million kwh was realised during 2011, representing a decrease of 13.98 million kwh over last year. On-grid power generation amounted to 328.09 million kwh with realised income from principal activity of HK\$189.45 million, representing a decrease of HK\$1.50 million over last year, realising a profit amounting to HK\$73.25 million.

Inner Mongolia Xinghe Wind Farm

The Inner Mongolia Xinghe wind farm of Datang Wanyuan, which is jointly controlled by BEI and Inner Mongolia Datang Wanyuan New Energy Co., Ltd., is installed with an installed capacity of 49,500KW. The first 55 self-manufactured 900KW directdrive wind turbines had been installed. The wind farm provided not only an environment for technological improvement of 900KW directdrive wind turbines, but also a testing base for research and development of 2MW directdrive wind turbines.

An electricity level of 100.09 million kwh was realised during 2011, representing an increase of 38.89 million kwh over last year. On-grid power generation amounted to 97.99 million kwh with realised income from principal activity of HK\$52.88 million, representing an increase of HK\$25.64 million over last year, realising a profit amounting to HK\$11.84 million.

Fujian Min Jian

Energine Min Jian New Energy Investment Co., Ltd., the Group's associated company, through its subsidiary, Yinkou Wind Power Generation Co., Ltd., had formally been engaged in offshore and land wind power projects in eastern Fujian. It secured market orders for the Group for purchase of the Group's existing make of 2MW directdrive wind turbines, as well as 3MW and 5MW offshore directdrive wind turbines being developed by the Group.

Business of New Materials

It is the plan of the Group to extensively utilise rare-earth materials in four major areas: highpower rare-earth permanent-magnet synchronous generator and variable-flow drive system applied in wind turbines, rare-earth permanent-magnet gearless traction machines for elevators, special rare-earth permanent-magnet motor for dual military plus civil application and its drive system and permanent-magnet directdrive electrical products.

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Group, is a high-tech enterprise which specialises in 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 for elevators, and its driving control system self-developed by the company's research and development had filled up a technological gap of the domestic gearless elevator sector.

Wuxi CASC Energiner Xindali Electricity Co., Ltd. (“Wuxi Wind Turbine Plant”), the Group’s associated company, is engaged in batch production of 900KW and 1.5MW generators and has realised income from sales. Therefore, the Group is equipped with the capacity to supply key 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 perfecting the wind turbine supply chain in effort to control the 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 supplied 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\$3,049.45 million in 2011, representing an increase of HK\$283.43 million over last year with realised profit of HK\$322.36 million. Its sales expansion and lower cost targets were successfully achieved.

Automotive sealing systems

Beijing Wanyuan-Henniges Sealing Systems Co., Ltd., a jointly controlled entity, is a company specialises 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 realises the development on and complement to the medium-to-high class models in the domestic market, but also attains the standards applicable to Germany, France, the United States, Japan and South Korea with its products.

The jointly controlled entity recorded sales revenue of HK\$577.24 million in 2011, representing an increase of HK\$142.58 million over last year with realised profit of HK\$24.88 million. The company will continue to take measures to enhance production efficiency and realise sustainable profits by controlling raw material procurement costs, reducing reject rate and containing expenses as well as through technological innovation and Toyota Production System (“TPS”), as well as Value Analysis/Value Engineering (“VAVE”).

Telecommunication Business

The telecommunication products of the Group fully cover various categories such as GPS mobile terminals, intelligent transport, wireless communication, GPS automotive information service platform. It is planned to gradually scale down this business so as to focus resources on the Group's principal wind energy business.

Following the disposal of its 22.5% equity interest in Castel Qihua Ltd. ("Castel Qihua"), a provider of GPS mobile terminals and GPS automotive information services platform in 2010, China Aerospace Telecommunications Limited (a wholly-owned subsidiary of the Group) sold its remaining 47.5% equity interest in Castel Qihua at a consideration of HK\$12.00 million in July 2011, officially leaving the business.

Corporate Social Responsibility

The Group always live 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 principle 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 turbine so as to consolidate the CASC brand and earn customers' trust; in management, risk management and compliance system is strengthened to ensure sustainable development; the value of leveraging employees' talents to full play and win-win in harmony is implemented to nurture an outstanding corporate team in the course of fully fulfilling our social responsibilities.

In 2011, the theme "Faith as Back-up Support, Shouldering in Realising Responsibilities" with emphasis on sharing the market situation, quality situation and CASC spirit was commenced with the aim of educating and guiding all employees to comprehend the environment so as to maintain a proper attitude and swift mindset, ascertain their respective duties and responsibilities, and elevate a sense of urgency and career aspirations in committing themselves devotedly to work with greater vitality.

In addition, Project Care and Love was launched in 2011. Many Group's senior executives and frontline staff being stationed away from their home had been working diligently and some of them had to be away from home for long periods. To ensure the stationed executives and frontline staff can concentrate on their work, the Group took a proactive role to understand the situation of these executives and their families and paid visits to them. In helping reduce stress at work, the Group organised leisure activities for employees, including trips, movies, and visits to scenic spots such as Bei Dai He, the Botanical Garden and Hou Hai. Other staff activities organised include a karaoke competition at Inner Mongolia Aerospace Science Park, sports activities, a youth staff forum and employee survey questionnaires. These activities helped motivate employees being energetic and build an outstanding team with innovative spirit for the Group, which is essential in living up to the Group's value of innovation pioneer in contesting excellence.

PROSPECTS

Looking ahead, the Group will speed up the progress in domestic production of wind turbines; focus on the development of 3MW and 5MW wind turbines to tie in with the Twelfth Five-year Plan, capture the share of the potential wind turbine market in future and identify cooperation opportunities with other large-scale power generation groups; refine the batch production of rare-earth motors; and secure financing for the Group. We shall broaden the scale of energy conservation and environmental protection business, as well as strengthen its internal management to ensure the sustainable development of the Group and create greater shareholder worth and repute.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 31 December 2011, the Group had 35 employees (2010: 48 employees) in the Hong Kong head office and 463 employees (2010: 704 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 2011 were HK\$1,326,948,000 (2010: HK\$1,046,320,000), of which HK\$374,400,000 (2010: Nil) 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 2011 was 77% (2010:63%).

Pledge of Assets

As at 31 December 2011, certain assets of the Group of HK\$22,606,000 (2010: HK\$32,644,000) 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.

The Group did not have any contingent liabilities as at 31 December 2011.

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

Code on Corporate Governance Practices

The Group has complied with all principles as set out in the Code on Corporate Governance Practices 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 2011, 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 2011, 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

During the year 2011, the Company has complied with Rules 3.10(1) and 3.10(2) of the Listing Rules in appointment of a sufficient number of 3 Independent Non-executive Directors ("INED") one of whom is, apart from other qualifications, a member of the Association of Chartered Certified Accountants and also a member of the Hong Kong Institute of Certified Public Accountants with over 20 years of experience in auditing, accounting and financial management or corporate finance.

Audit Committee

During the year 2011, 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 were prepared and adopted with reference to "A Guide for Effective Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and in accordance with the Code. 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 2011 have been reviewed by the Audit Committee.

PUBLICATION OF ANNUAL REPORT

A full text of the Company's 2011 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, 30 March 2012

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*