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

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 658)

Annual Report 2007

* For identification purpose only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Yueming *(Chairman and Chief Executive Officer)*
Mr. Chen Yongdao
Mr. Lu Xun
Mr. Li Shengqiang
Mr. Liu Jianguo
Mr. Liao Enrong

Non-executive Directors

Mr. Zhu Keming
Mr. Zhang Wei
Mr. Wang Qi

Independent non-executive Directors

Mr. Jiang Xihe
Mr. Zhu Junsheng
Mr. Chen Shimin

AUDIT COMMITTEE

Mr. Jiang Xihe *(Chairman of the Committee)*
Mr. Zhu Junsheng
Mr. Wang Qi

REMUNERATION COMMITTEE

Mr. Chen Shimin *(Chairman of the Committee)*
Mr. Zhang Wei
Mr. Jiang Xihe

REGISTERED OFFICE

Second Floor of Cayside
Harbour Drive
P.O. Box 30592 S.M.B.
Grand Cayman
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

36th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman, KYI-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward CPA (Aust.), FCPA

QUALIFIED ACCOUNTANT

Mr. Lui Wing Hong, Edward CPA (Aust.), FCPA

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong
Mr. Lui Wing Hong, Edward

AUDITORS

Deloitte Touche Tohmatsu

HONG KONG LEGAL ADVISERS

Charltons

COMPLIANCE ADVISER

Guotai Junan Capital Limited

PRINCIPAL BANKERS

Bank of Communications Co., Ltd., Nanjing Branch
China Merchants Bank Co., Ltd., Nanjing Branch

WEBSITE

www.chste.com

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
(Stock Code: 658)

Performance Highlights

Revenue for 2007 was approximately RMB1,904,816,000, representing an increase of 60.8% as compared with last year.

Profit attributable to equity holders of the Company for 2007 was approximately RMB306,693,000, representing an increase of 258.1% as compared with last year.

Basic earnings per share amounted to RMB0.29.

The Board recommended payment of a final dividend of HK8 cents per share for the year ended 31 December 2007.

INTRODUCTION

Develop renewable energy and create endless power

I am pleased to present the first annual report of China High Speed Transmission Equipment Group Co., Ltd, (the "Company") after its listing on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). For the year ended 31 December 2007, the Company and its subsidiaries (collectively referred to as the "Group") recorded turnover of approximately RMB1,904,816,000, representing a substantial increase of 60.8% over 2006. Profit attributable to equity holders of the parent was approximately RMB 306,693,000, representing a significant increase of 258.1% over last year. The gross profit margin for the year was 29%. During the period, the Group achieved remarkable performance with its net profit far exceeding the profit forecast of not less than RMB180,000,000 made by the Company in the prospectus ("Prospectus") published on 20 June 2007.

The Company was listed on the Stock Exchange on 4 July 2007 ("Listing Date") with an unprecedented success due to overwhelming market responses. Its public offering was 692 times oversubscribed and raised a net proceeds of approximately HK$2.4 billion, marking its successful entry into the international capital market. Besides, the Group successfully introduced a major strategic investor, GE Capital Equity Investments Limited, as its shareholder in February 2007. As a leading supplier of mechanical transmission equipment for wind turbines in the PRC that focuses on development in the international market, the Company's listing and introduction of international strategic investors help raise the level of corporate governance that is in line with international standards and facilitate the Company's overseas expansion.

As the leading producer in the transmission equipment business in China, the Company achieved outstanding performance in 2007. During the year, driven by the strong demand for gear transmission equipment in wind power and marine industries, our traditional gear transmission equipment and the wind and marine gear transmission equipment recently developed by the Group recorded substantial growth and gave a major impetus to the improving results. The sales of the Group's wind gear transmission equipment for the period under review increased by 125.8% to approximately RMB 717,370,000, with a production capacity of 1,300MW. The increase was mainly attributable to proactive policies and measures adopted by the PRC government to encourage the use of renewable and clean energy including wind power for power generation. For instance, the Renewable Energy Law promulgated in 2006 by the PRC government stipulate a number of policy support measures that focus on the development and use of renewable energy including wind power for power generation. With the commencement of operations of the joint venture ZF Nanjing Marine Propulsion Co., Ltd ("ZF Nanjing") which is established by the Group and ZF (China) Investment Co., Ltd. ("ZF China") and mainly engaged in the development, manufacture and sale of the mechanical transmission equipment for vessels by the third quarter of 2007, turnover of marine gear transmission equipment increased by approximately 42 times to approximately RMB 135,646,000.

Capitalizing on its position as a leading mechanical transmission equipment supplier in the PRC, the Group successfully bolstered its overseas business during the year. Our export business increased by 127.5% to approximately RMB 314,229,000 as compared with last year. Currently, our export sales mainly comprise the entire sales of marine gear transmission equipment and accounting for approximately 20.7% of total export sales of the sales of wind gear transmission equipment. The substantial increase in overseas orders is inspiring as it proves that our product quality is of international standard and recognised by our major clients.

Chairman's Statement

Looking forward, the Group is committed to increasing cooperation with international partners, further developing new overseas markets and advancing its research and development and production technology. In the long run, we aim to increase the overseas sales to 50% of the total sales. Meanwhile, the Group is dedicated to optimising product mix, increasing the growth points of our business revenue and enhancing our industrial competitiveness internationally. In order to achieve economies of scale, the Group will focus on upstream business development to optimise upstream supply chains.

We believe the Group's major business will continue to benefit from favourable market conditions such as the increasing awareness of environmental protection in China and rising demand for renewable energy in future boosted by national economic growth. Meanwhile, the Company will closely monitor the development of light rail and high-speed rail market in China as the government will proactively facilitate the construction of high-speed passenger transport network between cities under the Eleventh Five-year Plan. The Group will capitalise on its leading position in China and grasp opportunities to develop into a major international transmission equipment supplier and maximise returns for our shareholders.

The Group's exceptional growth over the previous year was attributable to the hard work and dedication of our staff. Their devotion is the driving force for our continuous improvement. I would like to take this opportunity to express my appreciation to shareholders and investors for their support. I would also like to extend my gratitude for the contributions of the management, members of the board of directors ("Board") and all our staff.

Hu Yueming
Chairman
21 April 2008

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. For the year ended 31 December 2007, the Group recorded revenue of approximately RMB1,904,816,000, representing a substantial increase of 60.8% over 2006; profit attributable to equity holders of the Company was approximately RMB306,693,000, representing a significant increase of 258.1% over last year. The gross profit margin recorded for the year was 29.0%. During the period, the net profit recorded by the Group was far more than the profit forecast of not less than RMB180,000,000 made by the Company in the prospectus dated 20 June 2007.

As at 31 December 2007, the basic earnings per share attributable to the ordinary equity holders of the Company amounted to RMB0.29, based on profits attributable to equity holders of the Company during the period, with adjustments made for the effect of the capitalisation issue as at 31 December 2007.

PRINCIPAL BUSINESS REVIEW

TRADITIONAL GEAR TRANSMISSION EQUIPMENT BUSINESS

Our traditional gear transmission equipment products are provided for customers from industries including metallurgy, construction materials, traffics, transportation, petrochemicals, aerospace and mining. During the year, sales revenue of high-speed series gear transmission equipment, gear transmission equipment for construction materials, general purpose gear transmission equipment, gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills and other mechanical transmission equipment increased by 62.8%, 85.3%, 3.5%, 1.5% and 0.6% to approximately RMB28,846,000 (2006: RMB17,714,000), RMB362,235,000 (2006: RMB195,434,000), RMB143,995,000 (2006: RMB139,184,000), RMB293,498,000 (2006: RMB289,163,000) and RMB223,226,000 (2006:RMB221,901,000) respectively.

WIND AND MARINE GEAR TRANSMISSION EQUIPMENT BUSINESS

The wind and marine gear transmission equipment is a new major product that has been developed by the Company in recent years. During the year, the Company continued to be a leading supplier of mechanical transmission equipment for wind turbines in the PRC. With an increasing awareness of environmental protection in the PRC, the strong demand for sustainable renewable energy brought by national economic growth and the implementation of proactive policies by the PRC government to develop renewable and clean energy, the development of renewable energy such as wind power has been advocated and supported. As such, sales revenue of wind gear transmission equipment business surged approximately by 125.8% to approximately RMB717,370,000 (2006: RMB317,743,000) as compared with last year, and capacity was 1,300 MW (2006: 500 MW). The increase was mainly attributable to the proactive policies and measures adopted by the PRC government to encourage the use of renewable energy and green power generation. For example, the Renewable Energy Law of the PRC promulgated in 2006 introduces various supporting measures to promote the development and use of renewable energy including wind power.

In May 2006, the Group entered into an agreement with GE Energy for the supply of wind gear transmission equipment for its wind turbines. During the year, sales revenue in the US market through sales to GE Energy increased. At the same time, the 2MW series wind gear transmission equipment manufactured by the Group for Fuji Heavy Industries Ltd. was exported in May 2007.

In respect of the marine gear transmission equipment business, all sales were generated from overseas orders. Upon the commencement of operations of ZF Nanjing, the joint venture between the Group and ZF China which is principally engaged in the development, manufacture and sale of marine gear transmission equipment, prior to the third quarter of 2007, turnover of marine gear transmission equipment increased by 42 times to approximately RMB135,646,000.

GEAR TRANSMISSION EQUIPMENT BUSINESS FOR LIGHT RAILS AND HIGH-SPEED RAILS

During the year, the Group continuously endeavoured to upgrade the production technology and enhance the customer base of gear transmission equipment used for light rails and high-speed rails. Accordingly, in April 2007, the Group entered into a development support service agreement with one of the worldwide leading railway infrastructure technical service providers, ALSTOM Group, for the provision of technical assistance and expertise to the Group in relation to the design and development of mechanical transmission equipment for light rails and high-speed rails.

LOCAL AND EXPORT SALES

During the year, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. However, with the efforts put in by Group companies to expand our businesses in overseas markets, overseas sales amounted to approximately RMB314,229,000, accounting for 16.5% of total sales and representing an increase of 4.8% over last year. At present, the customer base for exports of the Company extends to the US, India, Japan and Europe etc. During the year, increase in export sales was principally due to the increase in exports of wind gear transmission equipment and marine gear transmission equipment.

PATENTED PROJECTS

The business of the Group is of high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging on its advanced technology and premium quality, the Company has obtained 92 national, provincial and municipal technology advancement awards. 22 of our products have been recognised as high-technology products and nearly 30 products have obtained or are pending patent approval. The Company was the first producer to adopt ISO1328 and ISO06336 international standards. We were nominated as a enterprise for the 863 State Plan and a CIMS Application Model Enterprise. During the year 2007, the Company has passed ISO14001:2004 environmental management system certification and BV statutory certification of ships issued by Bureau Veritas; the branches of its welding plants have passed CCS of the PRC, RL of Britain, GL of Germany, as well as BV statutory certification of ships in France.

DIVIDEND

The Board recommended the payment of a final dividend of HK8 cents per share in respect of the year ended 31 December 2007.

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the issue of new shares upon the listing of the Company on the Stock Exchange on 4 July 2007 amounted to approximately HK$2.4 billion, after deducting related expenses. The net proceeds were principally used in the following ways in accordance with the proposed use as set out in the Prospectus published by the Company on 20 June 2007:

– approximately RMB746,757,000 was used for research, development and further production capacity expansion in relation to wind gear transmission equipment;
– approximately RMB22,571,000 was used for research, development and production of marine gear transmission equipment and other marine vessel related products;
– approximately RMB8,000,000 was used for research, development and production of mechanical transmission equipment for light rails and high-speed rails;
– approximately RMB470,000,000 was used for our general working capital; and
– as at 31 December 2007, no expenditure incurred for investments in production facilities to manufacture raw materials for critical components (such as forged steel and cast iron products) for our products.

The remaining net proceeds as at 31 December 2007 have been deposited to banks in Hong Kong and the PRC. The Board believes that the remaining net proceeds will be used for the intended uses as set out in the Prospectus.

Management Discussion and Analysis

FINANCIAL PERFORMANCE

In the financial year of 2007, the Group's results gradually reflected the success of the Group's investment, the vision of the management team as well as the Group's advantage as a leading mechanical transmission equipment manufacturer. Overall sales revenue increased by 60.8% to approximately RMB1,904,816,000.

	Revenue Year ended 31 December	
	2007 RMB'000	2006 RMB'000
High-speed Series Gear Transmission Equipment	**28,846**	17,714
Gear Transmission Equipment for Construction Materials	**362,235**	195,434
General Purpose Gear Transmission Equipment	**143,995**	139,184
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	**293,498**	289,163
Wind Gear Transmission Equipment	**717,370**	317,743
Marine Gear Transmission Equipment	**135,646**	3,168
Others	**223,226**	221,901
	1,904,816	1,184,307

REVENUE

The Group's revenue during the period under review was approximately RMB1,904,816,000, an increase of 60.8% as compared with last year. Such increase was mainly due to the continued growth in our sales volume during the period under review. In particular, this was mainly attributable to an increase of 125.8% in sales revenue of wind gear transmission equipment from approximately RMB317,743,000 for the year ended 31 December 2006 to approximately RMB717,370,000 for the year ended 31 December 2007, a substantial increase of 42 times in sales revenue of marine gear transmission equipment from approximately RMB3,168,000 for the year ended 31 December 2006 to approximately RMB135,646,000 for the year ended 31 December 2007 and increases of 85.3% and 1.5% in gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills from approximately RMB195,434,000 and approximately RMB289,163,000 for the year ended 31 December 2006 to approximately RMB362,235,000 and approximately RMB293,498,000 for the year ended 31 December 2007 respectively.

GROSS PROFIT MARGIN AND GROSS PROFIT

The Group's consolidated gross profit margin increased slightly during the period under review due to a change in the product sales structure. Consolidated gross profit for the year ended 31 December 2007 reached approximately RMB553,065,000 (2006: RMB340,763,000), an increase of 62.3% as compared with last year. This was mainly attributable to increased sales of wind gear transmission equipment and marine gear transmission equipment.

OTHER INCOME

The other income of the Group during the year ended 31 December 2007 was approximately RMB192,308,000 (2006: RMB23,301,000), an increase of 725.3% as compared with last year.

The other income is mainly comprised of interest income on proceeds from listing, sales of scrap metal and government subsidies.

DISTRIBUTION COSTS

The distribution costs of the Group for the year ended 31 December 2007 were approximately RMB79,320,000 (2006: RMB55,690,000), representing an increase of 42.4% over last year. The increase was mainly attributable to increased sales revenue. However, the percentage of distribution costs to sales revenue for the year ended 31 December 2007 was 4.2% (2006: 4.7%), representing a decrease of 0.5% over last year. This was mainly attributable to a decrease in some sales expenses such as marketing expenses and salaries of sales personnel as a result of strong market demand for wind gear transmission equipment.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased from approximately RMB137,489,000 in 2006 to approximately RMB282,210,000, mainly due to the increase in number of staff and staff costs, and the expenses incurred for the initial public offering of the Company's shares during the period under review. During the period under review, the Group recorded a net losses of foreign exchange of approximately RMB54,296,000.

FINANCE COSTS

Throughout 2007, finance costs of the Group were approximately RMB33,017,000 (2006: RMB41,536,000), a decrease as compared with last year due to the fact that some of the bank loans were settled during the year and interests payment was no longer required as a result of the conversion of all convertible bonds in 2006.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2007, the equity attributable to equity holders of the Company amounted to approximately RMB3,104,545,000 (2006: RMB526,999,000). The Group had total assets of approximately RMB4,785,580,000 (2006: RMB2,222,583,000), an increase of approximately RMB2,562,997,000, or 115.3%, as compared with that at the beginning of the year. Total current assets of the Group were approximately RMB3,034,863,000, representing an increase of 139.1% as compared with 31 December 2006 and accounting for 63.4% of total assets. Total non-current assets were approximately RMB1,750,717,000 (2006: RMB953,072,000), representing an increase of approximately RMB797,645,000 and accounting for 36.6% of the total assets.

As at 31 December 2007, total liabilities of the Group were approximately RMB1,677,713,000 (2006: RMB1,691,355,000), which represented a decrease of 0.8% as compared with that at the beginning of the year. Total current liabilities were approximately RMB1,592,449,000 (2006: RMB1,404,610,000), representing an increase of approximately RMB187,839,000 as compared with that at the beginning of the year whereas total non-current liabilities were approximately RMB85,264,000 (2006: RMB286,745,000), representing a decrease of approximately RMB201,481,000 as compared with that at the beginning of the year.

The Group shifted from its total net current liabilities of approximately RMB135,099,000 as at 31 December 2006 to total net current assets of approximately RMB1,442,414,000 as at 31 December 2007.

As at 31 December 2007, the cash and bank balances of the Group was approximately RMB1,693,411,000 (2006: RMB388,877,000).

As at 31 December 2007, the Group had total bank loans of approximately RMB493,858,000 (2006: RMB897,201,000), of which short-term bank loans were approximately RMB420,818,000 (2006: RMB612,615,000), accounting for approximately 85.2% of the total bank loans. The short-term bank loans are repayable within one year. The Group's short-term bank loans bear fixed interest rates and the average effective interest rate is 6.4319%.

Following the share offer on 4 July 2007, the Group recorded a net cash inflow from the share offer of approximately HK$2.4 billion. The directors of the Company ("Directors") believe that the Group will have a sound and strong financial position as well as sufficient resources for meeting its working capital requirements and foreseeable capital expenditure.

GEARING RATIO

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) reduced from 76.1% in 2006 to 35.1% in 2007.

CAPITAL STRUCTURE

On 8 February 2007, the Company issued 7,648 ordinary shares of par value of US$0.01 each to GE Capital at an aggregate consideration of US$8,500,000.

The Group's loans were mainly denominated in U.S. dollars. As at 31 December 2007, the currency units of the Group's cash and cash equivalents were approximately 58.3% in Australian dollars, 37.0% in Renminbi and 4.7% in total in U.S. dollars, Euros and Hong Kong dollars.

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

PROSPECTS

Looking forward, the Company will leverage on its cooperation with General Energy Company and other international partners to explore more overseas markets including rapid-developing countries such as India. In the long run, we look forward to increasing the overseas sales to 50% of the total sales.

The Company will focus on the research and development activities in relation to the wind gear transmission equipment business and further expand the joint development and manufacture of 1.5MW wind gear transmission equipment with General Energy Company. It also starts to develop wind gear transmission equipment of 2.5MW and 3MW. The Group will continue to raise its research and development capability, and improve the technological level of its existing production lines to achieve higher operation efficiency. This will enable the Group to offer more transmission equipment products that may be applied in various industries, consolidate its position and increase its market share in the global market. Besides, the Company will strive to increase the production capacity of wind power generation equipment to 3,500MW in 2008.

There are approximately 1,000 mechanical transmission equipment manufacturers of various scales in the PRC. Mechanical transmission equipment could be widely applied in various industries and is one of the important components in the manufacture of wind turbine generators. In light of global shortage of energy supply and increased awareness of environmental protection, wind power generation has been regarded as one of the most significant technologies to cope with the global shortage of energy resources. Also, the development of renewable energy is a significant measure to maintain energy safety in China. It will hence gradually become a major source of energy consumption in the PRC with substantially increased installed capacity. The rich wind power resources and proactive policies of the government may help China become one of the largest wind power generation markets. For instance, the Renewable Energy Law was promulgated in 2005 and implemented in 2006 and a series of preferential policies (such as tax and on-grid tariff concessions) in relation to wind power generation were promulgated recently. A promising market prospect is thus created.Some of the relatively new 2MW to 5MW generation units still operate with multi-layer gearbox transmission technology and continue to be in the mainstream of wind power generation business. The Company believes that its market share will increase steadily in the years to come.

With the rapid growth of urban population in China, the public transportation system can no longer catch up with the demand caused by population growth. The nationwide rail transportation infrastructure in China has entered into an era of rapid development. As of 2015, China will invest approximately USD750 million to build a 1,600 km urban light rail, the passenger capacity of which will be a record high.

The 2008 Beijing Olympics and 2010 Shanghai World Expo, which attract worldwide attention, will also facilitate the modernisation of China's urban transport.

The Company has carried out research of such market for many years. With our strong research and development and production capacity, we believe that we can utilise the growing market demand for rail transmission equipment. In April 2007, we entered into a development support service agreement with ALSTOM Group to develop mechanical transmission equipment used in light rails and high-speed rails.

In respect of marine transmission equipment, the Company and ZF China cooperated to develop transmission equipment for large vessels and hydraulic paddle (CPP paddle), which were mainly exported to overseas markets.

Apart from maintaining its position in wind power business, the Company will increase its product mix to raise the growth points of our business revenue. The Company will maintain industrial competitiveness by enhancing technological research and development and strengthening product qualities. Our efforts in increasing production capacity will improve our economies of scale. Overseas cooperation agreements will also be targeted for business market expansion.

The Company aims at exploring upstream business as its long-term development. It plans to invest in production facilities for manufacturing raw materials of certain major spares (such as forged steels and cast iron products) through joint ventures or other approaches in order to reduce reliance on suppliers and focus on our upstream supply chains to maximise our economies of scale.

PLEDGE OF ASSETS

As at 31 December 2007, bank deposits of approximately RMB177,265,000 (2006: RMB192,779,000) and notes receivable of RMB Nil (2006: RMB4,250,000) were pledged to banks to secure notes payable utilised by the Group. Save as the above, the Group has made no further pledge of assets in 2007.

CONTINGENT LIABILITIES

As at 31 December 2007, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 31 December 2007, the Group had expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment, and outstanding commitments payable under non-cancelable operating lease in respect of rented premises of approximately RMB942,344,000 and RMB54,469,000 respectively (2006: RMB256,587,000 and RMB46,404,000).

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

The Group's operations are mainly conducted in the PRC. Except for the export sales as well as the imported equipment, spare parts and materials which are transacted in U.S. dollars and Euros, most of the Group's revenue and expense are denominated in Renminbi. Therefore, the Board of the Company is of the view that the Group's operating cash flow and liquidity during the period under review is not subject to significant foreign exchange rate risks.

The Group's bank borrowing denominated in U.S. dollars as at 31 December 2007 was US$67,609,000. Besides, as the proceeds from the global offering of the Group on 4 July 2007 were received in Hong Kong dollars, the Group may be exposed to foreign exchange risks.

The net losses of foreign exchange recorded by the Group for the year was approximately RMB54,296,000, which was due to the appreciation of Renminbi against major foreign currencies in 2007. In light of the above, the Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to foreign exchange risks in 2008.

INTEREST RATE RISK

The interest-bearing financial assets of the Group were mainly pledged bank deposits and bank balances, which were all short term and carried fixed interest rates. The interest-bearing financial liabilities of the Group were mainly short-term bank loans, which had fixed interest rates. Accordingly, the Group believes that it is not exposed to significant fair value interest rate risk. The Group currently does not have any interest rate hedging policy.

EMPLOYEES

As at 31 December 2007, the Group employed approximately 2,856 employees (2006: 2,241). Staff cost of the Group for 2007 approximated to RMB242,225,000 (2006: RMB149,368,000). The cost included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan, etc. The salary levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial performance. In addition to salaries, the Group provides housing allowances to some of its employees. The Group also offers incentive programmes to encourage its employees to take initiatives and rewards employees who have made valuable contributions or achieved technical breakthroughs. The Group's employees are rewarded for their creativity achievements in technologies and technical skills, management of information, product quality and enterprise management. The Group has adopted incentive programmes to encourage employee performance and a range of training programmes for the development of its staff.

PENSION SCHEME

The employees of the Group are members of state-managed pension scheme operated by the local government in China. The Group is required to contribute a specific percentage of their payroll costs to the pension scheme for the funding of the scheme. The sole responsibility of the Group in respect of this pension scheme is making specific contribution to this scheme.

SIGNIFICANT INVESTMENT HELD

There was no significant investment held by the Group as at 31 December 2007.

MATERIAL ACQUISITION AND DISPOSAL

Other than the reorganisation as disclosed in the prospectus dated 20 June 2007 of the Company, during the period under review, there was no material acquisition or disposal of subsidiaries and associated companies.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at the date of this report, the Group did not enter into any agreement in respect of any proposed acquisitions and did not have any future plans relating to material investment or capital asset.

Directors and Senior Management

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

EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 58, is our Chairman, Chief Executive Officer and executive Director. Mr. Hu is a university graduate and a senior engineer by profession. He gained management experience by initially serving as the deputy head of the equipment section of Nanjing Engineering Equipment Factory (南京工藝裝備廠) and then its deputy workshop head and deputy factory manager. He later served as the deputy general manager of Nanjing Engineering Equipment Factory (南京工藝裝備廠) and the general manager of Nanjing Atlas Copco Construction Machinery Ltd. Mr. Hu has engaged himself in the management of machinery and industrial enterprises for more than 20 years and has worked as a factory director and a general manager of various state-owned enterprises and foreign-invested enterprises. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. He became the vice-chairman and the general manager of Nanjing High Speed & Accurate Gear (Group) Co., Ltd.) ("NGC") in August 2001. Mr. Hu also holds directorship in certain subsidiaries of the Group, namely Nanjing Gaote Gear Box Manufacturing Co., Ltd. (formerly known as Nanjing Ningjiang Gear Box Manufacturing Co., Ltd.) ("Gaote"), Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("Nanjing Dongalloy"), Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), Nanjing Ningkai Mechanical Co., Ltd. ("Ningkai"), Nanjing High Accurate Wind Power Transmission Equipment Co., Ltd. ("Nanjing Wind Power"), Nanjing Ningtai Property Management Co., Ltd. ("Ningtai"), Nanjing Yongte Gear Box Manufacturing Co., Ltd. ("Yongte"), Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine"), Nanjing High Accurate Drive Equipment Manufacturing Corporation Limited ("Nanjing Drive"), Nanjing Ninghongjian Mechanical Co., Ltd. ("Ninghongjian"), Eagle Nice Holdings Limited ("Eagle Nice"), Goodgain Group Limited ("Goodgain") and China Transmission Holdings Limited ("China Transmission Holdings").

Mr. Hu, an expert on mechanical transmission equipment technology and business management, is also a council member of the China Gear Manufacturing Association and has been awarded the title of an "Outstanding Entrepreneur of the Machinery Industry" by the China Machinery Industry Federation in 2004.

Mr. Chen Yongdao, aged 45, is our executive Director. Mr. Chen is a postgraduate in economics and a senior engineer by profession. He was initially the deputy head of the inspection and gauging section of Nanjing High Speed Gear Factory, head of the production allocation section of the factory and then deputy general Manager. He became a director and the deputy general manager of NGC in August 2001. Mr. Chen also holds directorship in certain subsidiaries of the Group, namely Nanjing Dongalloy, Nanjing High Speed, Ningkai, Nanjing Marine, Nanjing Drive and China Transmission Holdings. Mr. Chen, an expert on heat treatment of metallic materials, has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment for more than 20 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Lu Xun, aged 53, is our executive Director. Mr. Lu is a university postgraduate and senior engineer by profession. He initially worked as the deputy head of the quality assurance section, then deputy head of the technology section, then head of the operational planning section, then deputy Chief Economist, then head of the operational planning division, and then deputy general manager of Nanjing High Speed Gear Factory. He became a director of and also deputy general manager of NGC in August 2001. Mr. Lu also holds directorship in certain subsidiaries of the Group, namely Nanjing High Speed, Nanjing High Speed Gear (Shenyang) Sales Co., Ltd. ("Shenyang Sales Co."), Eagle Nice, Goodgain, Nanjing Drive and China Transmission Holdings. Mr. Lu, an expert on marketing management for mechanical transmission equipment, has engaged in the marketing of mechanical transmission equipment for more than 20 years and has rich experience in marketing management and client resources.

Mr. Li Shengqiang, aged 54, is our executive Director. Mr. Li is a university graduate. He initially worked as a deputy secretary of the youth corps committee in Nanjing High Speed Gear Factory, then the deputy party secretary of the tools section of Nanjing High Speed Gear Factory, then Chairman of the Workers' Union of Nanjing High Speed Gear Factory, and later general manager of Yongte. He became a director of NGC in August 2001, and deputy general manager of NGC in March 2004. Mr. Li also holds directorship in certain subsidiaries of the Group, namely Gaote, Nanjing High Speed, Ningkai, Yongte, Nanjing Wind Power, Eagle Nice, Goodgain, Nanjing Drive and China Transmission Holdings. He is also the general manager of Gaote. Mr. Li has engaged in the enterprise management of our Group for more than 25 years and has rich experience in mechanical transmission equipment production management.

Mr. Liu Jianguo, aged 38, is our executive Director. Mr. Liu is a university graduate and a senior engineer by profession. He was first the deputy head and then head of the research centre of Nanjing High Speed Gear Factory, then assistant general manager, acting chief engineer and then chief engineer of the factory. He became a director, deputy general manager and also chief engineer of NGC in August 2001 and has become a general manager of Nanjing High Speed since January 2005. Mr. Liu also holds directorship in certain subsidiaries of the Group, namely Gaote, Nanjing High Speed, Ningkai, Nanjing Wind Power, Yongte, Nanjing Drive, Ninghongjian and China Transmission Holdings. Mr. Liu has engaged in the research, design and development of mechanical transmission equipment for more than ten years and has received a number of technological achievement awards for his R&D efforts in mechanical transmission equipment.

Mr. Liao Enrong, aged 47, is our executive Director and director of NGC. Mr. Liao is a postgraduate and a senior engineer by profession. He joined the Nanjing High Speed Gear Factory in 1984 and worked as its deputy head and then head of the workshop, then head of the technological reform section, then deputy chief engineer, then head of the enterprise management section, then assistant to general manager. He has been the secretary to the board of directors of NGC since August 2001, and was the assistant to NGC's general manager and the head of NGC's investment operations division since September 2001. Mr. Liao has been a deputy general manager of NGC since January 2003. Mr. Liao has experience in the heat treatment of metallic materials and has spent more than 20 years in technical and investment management. Mr. Liao also holds directorship in certain subsidiaries of the Group, namely Nanjing Dongalloy, Nanjing High Speed, Ningkai, Shenyang Sales Co., Nanjing Wind Power, Nanjing Marine, Goodgain, Nanjing Drive, Ninghongjian and China Transmission Holdings.

NON-EXECUTIVE DIRECTORS

Mr. Zhu Keming, aged 27, is our non-executive Director. He is a university graduate in Finance. He has worked as Secretary of the Board of Directors of Jiangsu Zhongtai Group Co., Ltd. since 2002, Mr. Zhu has been our Director since 27 July 2006. He is also an employee of Jiangsu Zhongtai Group Co., Ltd., a PRC company owned and controlled by Mr. Liu Xuezhong and his wife, Ms. Li Yuelan, who together own and control Luckever Holdings Limited.

Mr. Zhang Wei, aged 43, is our non-executive Director and also a director of NGC. Mr. Zhang is a university graduate in semi-conductor physics and a master in business administration. Since 1998, he has been the secretary to the board of directors, assistant to the chief executive officer, deputy chief executive officer, director and chief executive officer of Hiteker High Technology Co., Ltd. He is currently a director and general manager of Jiangsu VC which in turn owns and controls Wise-Win Technology Limited. Mr. Zhang has been our Director since 27 July 2006. Mr. Zhang is also a director of China Transmission Holdings, a subsidiary of the Company.

Mr. Wang Qi, aged 45, is our non-executive Director. Mr. Wang graduated from Peking University with a degree in World History. He has previously worked in a number of financial institutions including Guotai Junan Securities in Hong Kong. In 2000, he became a director of the corporate finance division of Chinney Alliance Group. In 2002, he served as Deputy Chief Executive Officer of Titan Holdings (HK) Limited, a listed company engaging in oil shipping and storage in China and Singapore. In 2004, he became the managing partner of Asian Capital Partners Limited and was in charge of financial services for the European Development Banks operating in China. He currently serves as a director of Development Partners Fund and executive partner of Development Principles (Hong Kong) Limited. Mr. Wang has been our Director since 27 July 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xihe, aged 49, is our independent non-executive Director. He passed the examination organized by the examination committee for certified accountants, the Ministry of Finance and obtained professional accounting qualification recognized in the PRC in July 1999. He is currently a professor at the Faculty of Accounting and Financial Management of Nanjing Normal University（南京師範大學）and the deputy dean of Jinling Girl's College, Nanjing Normal University（南京師範大學）. He graduated from the Faculty of Accounting at the Central University of Finance and Economics（中央財經大學）in June 1990. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association. The Directors have evaluated Mr. Jiang's professional qualification and are satisfied that he has the appropriate qualification for the purpose of Rule 3.10(2) of the Listing Rules. Mr. Jiang joined the Company on 8 June 2007 as independent non-executive Director.

Mr. Zhu Junsheng, aged 68, is our independent non-executive Director. He is experienced in the renewable energy industry, one of the markets that our products are focused on. Mr. Zhu is currently director of the Renewable Energy Professional Committee of the China Association of Resource Comprehensive Utilisation, honorary president of the wind machinery branch of the Chinese Farm Machinery Industrial Association and a board member of the China Energy Research Society. Mr. Zhu joined the Company on 8 June 2007 as independent non-executive Director.

Mr. Chen Shimin, aged 49, is our independent non-executive Director. He is the associate professor and Ph.D. supervisor of the School of Accounting and Finance of The Hong Kong Polytechnic University. He is also a guest professor and Ph.D. supervisor of the Department of Accounting, Nanjing University and School of Accounting, Shanghai University of Finance and Economics. Mr. Chen obtained the qualification of management accountant registered in the United States, and is a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen obtained a bachelor degree and a master degree in economics (majoring in accounting) from Shanghai University of Finance and Economics in 1983 and 1985, respectively. He also obtained a doctorial degree majoring in accounting from the University of Georgia, the United States, in 1992. He has obtained a number of academic awards such as "Col. Jean M. Migliorino and Lt. Col. Phillip Piccione Award for Research Excellence, 2004" presented by B.I. Moody III College of Business Administration, The University of Louisiana and "Distinguished Paper Award, 2001 Second Prize" presented by Accounting Society of China（中國會計學會）. He has also obtained a number of research grants including those supported by the Research Grant Council of the Hong Kong Special Administrative Region and the National Science Foundation of the People's Republic of China. Mr. Chen joined the Company on 8 June 2007 as independent non-executive Director.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 45, is our chief financial officer, company secretary and qualified accountant. He is responsible for the financial and accounting management and secretarial affairs of the Company. He graduated from York University with a Bachelor of Arts degree in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is an associate member of the Australian Society of Certified Practising Accountants and a member fellow of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Group in June 2006. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Company. He is currently the independent non-executive director of Zhejiang Shibao Company Limited (a company listed on GEM of the Stock Exchange).

Ms. Zhou Jingjia, aged 44, is the financial controller of NGC. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. From 1 January 2006, Ms. Zhou was transferred from Nanjing Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the country manager overseeing the accounting departments of the Atlas Copco Group's certain product companies in China. Ms. Zhou graduated from Suchou University in 1986, majoring in accountancy. Ms. Zhou is a member of the CICPA and a qualified accountant by profession. Ms Zhou joined the Group in July 2006. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Speed and China Transmission Holdings.

Mr. Zhang Xueyong, aged 44, is the deputy head of the financial department of NGC. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in January 1985 and was appointed as the deputy head of the financial department of Nanjing High Speed Gear Factory in December 2000. He has become the deputy head of the financial department of NGC since its establishment in August 2001. Mr. Zhang graduated from Agricultural Economics and Trade Institute, Nanjing Agricultural University (南京農業大學) in 1990. Mr. Zhang is a qualified accountant by profession. He is one of the members of the group of controlling shareholders of the Company ("Management Shareholders").

Mr. Wang Zhengbing, aged 36, is the deputy general manager of Nanjing High Speed. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1993. Upon the establishment of NGC in August 2001, Mr. Wang has been employed by NGC since September 2001. He has been appointed as the deputy general manager of Nanjing High Speed since 2003. Mr. Wang took up two positions, namely the head of production planning department and the deputy general manager of Nanjing High Speed from July 2003 to December 2004, and has focused on his position as the deputy general manager of Nanjing High Speed since January 2005. Mr. Wang is also a director Ninghongjian, a subsidiary of the Company, Mr. Wang graduated from Zhejiang University (浙江大學) in 1993 and specialized in metallic materials and thermo processing. Mr. Wang is a senior engineer by profession.

Mr. Wang Zhengrong, aged 41, is the deputy general manager of Nanjing High Speed. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1988 and was appointed as head of technology department (工藝處) of Nanjing High Speed Gear Factory in December 2000. Upon the establishment of NGC in August 2001, Mr. Wang has been employed by NGC since September 2001. In May 2004, Mr. Wang was appointed as the head of technology department of Nanjing High Speed. He has been appointed as the deputy general manager of Nanjing High Speed since July 2006. Mr. Wang is also a director of Ninghongjian, a subsidiary of the Company, Mr. Wang graduated from Chengdu University of Science and Technology (成都科技大學) in 1988 and specialized in machinery design and manufacture. Mr. Wang is a senior engineer by profession. He is also one of the Management Shareholders.

Mr. Xu Yong, aged 35, is the deputy head of the financial department of NGC. He is also the assistant to general manager as well as the head of financial department of Nanjing High Speed. Mr. Xu joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1994. He was appointed as the head of financial department of Nanjing High Speed in December 2003 and also as the assistant to general manager of Nanjing High Speed in January 2005. Mr. Xu has been the deputy head of the financial department of NGC since January 2007 in addition to his then position in Nanjing High Speed as the assistant to general manager as well as the head of financial department. Mr. Xu graduated from Nanjing Institute of Economics and specialized in accounting in 1994. He also obtained the MBA degree from Macau University of Science and Technology (澳門科技大學) in August 2006. Mr. Xu is a qualified accountant by profession. He is also one of the Management Shareholders.

Mr. Zhou Zhijin, aged 35, is the deputy general manager of Nanjing High Speed. Mr. Zhou joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1991. Upon the establishment of NGC in August 2001, Mr. Zhou joined NGC in September 2001 as the deputy head of human resources department. He has been the deputy general manager of Nanjing High Speed since July 2006. Mr. Zhou graduated from Nanjing Institute of Technology(南京工業學校)in 1991 and pursued further studies in management in School of Distance Learning of the Party School of the Central Committee of the Chinese Communist Party (中共中央黨校函授學院) from 2002 to 2004.

The Directors of the Company is pleased to present the Directors' report and the audited financial statements of the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company and the Group are principally engaged in production and sale of gear transmission equipment products.

Details of the principal activities of the subsidiaries and associate of the Company are set out in notes 41 and 19 to the notes to the consolidated financial statements.

OPERATION RESULTS

The operation results of the Group for the year ended 31 December 2007 are set out in the consolidated income statement on page 38 in the consolidated financial statements.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

During the year, a final dividend of USD40.565 (equivalent to approximately RMB313.97) per share (2006: nil) for 2006 has been paid to shareholders.

The Board has recommended payment of a final dividend of HK8 cents per share for the year ended 31 December 2007 to be paid on 11 July 2008 to shareholders whose names appear on the register of members of the Company on 20 June 2008 subject to shareholders' approval. The register of members of the Company will be closed from Monday 16 June 2008 to Friday 20 June 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday 13 June 2008.

RESERVES

Movements in the reserves of the Company and the Group for the year ended 31 December 2007 are separately set out in note 40 to the notes to the consolidated financial statements and consolidated statement of changes in equity.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2007 was approximately RMB2,476,501,000 (2006: RMB141,032,000).

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2007 are set out in note 15 to the notes to the consolidated financial statements.

SHARE CAPITAL

Details of the registered and issued share capital of the Company are set out in note 31 to the notes to the consolidated financial statements.

DONATION EXPENDITURE

During 2007, the donation expenditure of the Group was approximately RMB1,000,000.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

As at 31 December 2007, neither the Company nor any of its subsidiaries has purchased, redeemed or cancelled any of the Company's listed securities.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 June 2007 pursuant to the written resolutions of all shareholders of the Company. No options were granted under the share option scheme as at 31 December 2007.

MAJOR SUPPLIERS AND CUSTOMERS

The purchase amount of the Group's five major suppliers and the largest supplier were approximately RMB430,540,000 and RMB137,000,000, representing 28.6% and 9.1% of the total purchase amounts respectively. Besides, the revenue amount of the Group's five major customers and the largest customer were approximately RMB833,476,000 and RMB300,293,000, representing 43.8% and 15.8% of the total revenue amounts respectively. All transactions between the Group and relevant suppliers and customers were carried out on normal commercial terms.

To the best knowledge of the Directors, none of Directors and any shareholders holding over 5% of the Company's shares and their associates (within the meanings of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")) had any interests in the above five major suppliers and customers for 2007.

DIRECTORS' SERVICE CONTRACTS

All Directors have entered into service contracts with the Company with a term of three years starting from the Listing Date.

Under the Cayman Companies Law, at every annual general meeting of the Company no less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and eligible to offer themselves for re-election.

None of the Directors or Directors intending to seek re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS AND THEIR TERMS

Directors in office and their terms for the year and up to the date of this report were:

Executive Directors:	
Mr. Hu Yueming	Three years from 4 July 2007
Mr. Chen Yongdao	Three years from 4 July 2007
Mr. Lu Xun	Three years from 4 July 2007
Mr. Li Shengqiang	Three years from 4 July 2007
Mr. Liu Jianguo	Three years from 4 July 2007
Mr. Liao Enrong	Three years from 4 July 2007
Mr. Li Cunzhang	Term ceased due to his passing away on 10 August 2007
Non-executive Directors:	
Mr. Zhu Keming	Three years from 4 July 2007
Mr. Zhang Wei	Three years from 4 July 2007
Mr. Wang Qi	Three years from 4 July 2007
Mr. Richard Andrew Cornish Piliero	Resigned on 9 October 2007
Independent non-executive Directors:	
Mr. Jiang Xihe	Three years from 4 July 2007
Mr. Zhu Junsheng	Three years from 4 July 2007
Mr. Chen Shimin	Three years from 4 July 2007

DIRECTOS' INTERESTS IN CONTRACTS

Save as the directors' service contracts disclosed above, no contracts of significance to which the Company, its holding companies, or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the year.

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 31 December 2007, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would be required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

During the reporting period, none of the Directors and chief executives of the Company or any of their associates had any interests in any securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors and chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

At no time during the reporting period was the Company or its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 31 December 2007, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name	**Nature of interests**	**Number of securities held** (Note 1)	**Approximate percentages to the equity** (%)
Fortune Apex Limited (Note 2)	Beneficial owner	329,386,024	26.46
Luckever Holdings Limited (Note 3)	Beneficial owner	157,568,700	12.66
Mr. Liu Xuezhong (Note 3)	Interest of a controlled corporation and interest of spouse	157,568,700	12.66
Ms. Li Yuelan (Note 3)	Interest of a controlled corporation and interest of spouse	157,568,700	12.66
Mr. Cheah Cheng Hye (Note 4)	Discretionary trustee	94,273,765	7.57
To Hau Yin (Note 4)	Interest of spouse	94,273,765	7.57
Hang Seng Bank Trustee International Limited (Note 4)	Trustee	94,273,765	7.57
Cheah Company Limited (Note 4)	Interest of a controlled corporation	94,273,765	7.57
Cheah Capital Management Limited (Note 4)	Interest of a controlled corporation	94,273,765	7.57
Value Partners Group Limited (Note 4)	Interest of a controlled corporation	94,273,765	7.57
Value Partners Limited (Note 4)	Investment manager	94,273,765	7.57

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

Note:

(1) All the securities held are in long positions.

(2) Fortune Apex Limited owns 26.46% interest in the issued share capital of the Company. Messrs. Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang, Li Shengqiang, Liao Enrong, Jin Maoji, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguo (collectively, the "Management Shareholders") together own 100% interest in the issued share capital of Fortune Apex Limited. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex Limited:

	Name	Shareholdings
1	Mr. Hu Yueming (executive Director)	30.3813%
2	Mr. Liu Jianguo (executive Director)	12.3989%
3	Mr. Lu Xun (executive Director)	10.4520%
4	Mr. Chen Yongdao (executive Director)	10.5343%
5	Mr. Li Cunzhang (executive Director)*	8.8945%
6	Mr. Li Shengqiang (executive Director)	8.9725%
7	Mr. Liao Enrong (executive Director)	5.3422%
8	Mr. Jin Maoji	5.9195%
9	Mr. Yao Jingsheng	2.5678%
10	Mr. Chen Zhenxing	0.9091%
11	Mr. Zhang Xueyong	1.1286%
12	Mr. Xu Yong	0.7376%
13	Mr. Wang Zhengrong	0.6792%
14	Mr. Chen Liguo	1.0825%
	Total	100.0000%

* Mr. Li Cunzhang passed away on 10 August 2007.

However, none of them singly controls more than one-third of the voting power at general meetings of Fortune Apex Limited and neither Fortune Apex Limited nor its directors are accustomed or obliged to act in accordance with directions or instruction of any single member of the Management Shareholders.

(3) Luckever Holdings Limited owns 12.66% interest in the issued share capital of the Company. Mr. Liu Xuezhong and Ms. Li Yuelan own 60.87% and 39.13% interest in the issued share capital of Luckever Holdings Limited respectively. Ms. Li Yuelan is the spouse of Mr. Liu Xuezhong and therefore is deemed to be interested in the shares of the Company in which Mr. Liu Xuezhong is deemed to be interested for the purpose of the SFO and vice versa. Pursuant to the SFO, Mr. Liu Xuezhong and Ms. Li Yuelan are deemed to be interested in the 157,568,700 shares of the Company in which Luckever Holdings Limited is currently interested.

(4) Value Partners Limited ("VPL") is the investment manager of certain funds or sub-funds. VPL is wholly-owned by Value Partners Group Limited ("VPGL"), which in turn is 35.65% owned by Cheah Capital Management Limited ("CCML"), which in turn is wholly-owned by Cheah Company Limited ("CCL"), which in turn is wholly-owned by Hang Seng Bank Trustee International Limited ("HSBTRIL"), as trustee of The C H Cheah Family Trust, a discretionary trust. Therefore, VPL, VPGL, CCML, CCL and HSBTRIL are deemed to be interested in the 94,273,765 shares pursuant to the SFO. Mr. Cheah Cheng Hye is the founder of The C H Cheah Family Trust. Ms. To Hau Yin ("Ms. To") is the spouse of Mr. Cheah Cheng Hye. Pursuant to the SFO, Mr. Cheah Cheng Hye and Ms. To are also deemed to be interested in the 94,273,765 shares.

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

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2007, there was no other person, other than the directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2007 are set out in note 39 to the notes to the consolidated financial statements. The Directors of the Company (including our independent executive Directors) believe that the related party transactions set out in note 39 to the notes to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

For the purpose of the related party transactions set out in note 39 to the notes to the consolidated financial statements, the Board of the Company confirms that, under Chapter 14A of the Listing Rules, lease payments to Nanjing Yuhuatai District Saihong Bridge Street Office constituted continuing connected transactions. Since each of the percentage ratios (other than the profits ratio), calculated on an annual basis, is less than 0.1%, it is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

Our Directors (including our independent non-executive Directors) consider that the above continuing connected transaction (i) complies with the disclosure requirements under Chapter 14A, and (ii) is carried out in the ordinary course of business of the Group after arm's length negotiations and on normal commercial terms and is fair and reasonable so far as the Company and shareholders are concerned. This continuing connected transactions has been approved by the Board.

Save as disclosed above, transactions listed in note 39 to the notes to the consolidated financial statements do not constitute discloseable and connected transactions under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

As at 31 December 2007, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

PRE-EMPTION RIGHT

Though there are no restrictions on the grant of pre-emption right under the Cayman Laws, the Company did not grant any pre-emption rights in accordance with the Articles of Association.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the amount of sufficient public float as required under the Listing Rules during the period between the Listing Date and 31 December 2007.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as our auditor for 2008.

ESTABLISHMENT OF SUBSIDIARIES

The Company established the following wholly-owned subsidiaries during the period under review:

Name of subsidiary	Place and date of incorporation	Registered capital/ issued and fully paid share capital	Principal activities
Nanjing High Accurate Marine Equipment Co., Ltd. (南京高精船用設備有限公司)	PRC/2 February 2007	RMB50,000,000	Inactive
Nanjing Ninghongjian Mechanical Co., Ltd. (南京寧宏建機械有限公司)	PRC/15 March 2007	RMB20,000,000	Engineering processing and manufacturing
Nanjing High Accurate Drive Equipment Manufacturing Corporation Ltd. (南京高精傳動設備製造有限公司)	PRC/27 March 2007	US$157,600,000	Manufacture and sales of gear box and fittings
China Transmission Holdings Limited (中傳控股有限公司)	Hong Kong/ 7 November 2007	HK$100	Investment holding

OTHER MATERIAL ACQUISITIONS

Save as the reorganization disclosed in the Prospectus of the Company dated 20 June 2007, the Company did not carry out any significant acquisitions of subsidiaries and associates during the period under review.

DISPOSAL OF EQUITY OF SUBSIDIARIES AND ASSETS

Save as the reorganization disclosed in the Prospectus of the Company dated 20 June 2007, the Company did not carry out any disposal of the equity of our subsidiaries or material assets during the period under review.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 29 to the notes to the consolidated financial statements.

TAXATION

Details of the taxation of the Group are set out in note 10 to the notes to the consolidated financial statements .

MATERIAL LITIGATIONS AND ARBITRATIONS

During the reporting period, the Group had no material litigations and arbitrations.

By order of the Board
Hu Yueming
Chairman

Hong Kong, 21 April 2008

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of corporate governance practice to the success of a listed company. The Company is committed to achieving high standard of corporate governance in the interest of the shareholders of the Company.

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules since the listing date except for the deviation from Code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries of all Directors by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code since the listing date.

COMPOSITION AND PRACTICES OF THE BOARD

The Board of the Company collectively take responsibility to all the shareholders in respect of managing and supervising the business of the Group so as to enhance value for our shareholders.

The Board of the Company comprises twelve Directors, including six executive Directors, three non-executive Directors and three independent non-executive Directors. The Board held five meetings for the year ended 31 December 2007 (including one meeting held upon the listing). The attendance of the Directors at Board meetings during the year is as follows:

	Attendance during the year	Attendance upon listing
Executive Directors:		
Mr. Hu Yueming (Chairman and Chief Executive Officer)	5/5	1/1
Mr. Chen Yongdao	5/5	1/1
Mr. Lu Xun	5/5	1/1
Mr. Li Shengqiang	5/5	1/1
Mr. Liu Jianguo	5/5	1/1
Mr. Liao Enrong	5/5	1/1
Mr. Li Cunzhang (Ceased to be a director due to his pass away on 10 August 2007)	4/5	0/1
Non-executive Directors:		
Mr. Zhu Keming	5/5	1/1
Mr. Zhang Wei	5/5	1/1
Mr. Wang Qi	5/5	1/1
Mr. Richard Andrew Cornish Piliero (Resigned on 9 October 2007)	5/5	1/1
Independent non-executive Directors		
Mr. Jiang Xihe	3/5	1/1
Mr. Zhu Junsheng	3/5	1/1
Mr. Chen Shimin	3/5	1/1

Each of the non-executive Directors of the Company has entered into a service contract with the Company with a term of three years commencing from the Listing Date. Each of them (including the one with a specific service term) shall retire from office by rotation at least once every three years yet subject to re-election. In any event, such service term can be terminated subject to the articles of association of the Company and/or applicable laws.

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

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

There is no financial, business, family or other major/related relationships among the members of the Board.

Pursuant to Rule 3.13 of the Listing Rules, each of the independent non-executive Directors has confirmed his independence to the Company. Therefore, the Company considers that all independent non-executive Directors are independent parties.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Hu Yueming is the Chairman and Chief Executive Officer of the Company. He is responsible for formulating the overall strategies and policies of the Company for the smooth operation and performance of duties of the Board. The Board believes that appointing the same person as the Chairman and the Chief Executive Officer is favorable to the development and management of the business of the Group while the existing balance between functions and power is not affected. Besides, it enables the Company to formulate and implement decisions in a rapid and efficient manner.

REMUNERATION COMMITTEE

The Company established the remuneration committee on 8 June 2007. The remuneration committee comprises Mr. Chen Shimin, Mr. Zhang Wei and Mr. Jiang Xihe, among which two of them are independent non-executive Directors. Mr. Chen Shimin is the chairman of the remuneration committee.

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

The remuneration committee did not hold any meeting for the year ended 31 December 2007.

NOMINATION OF DIRECTORS

The Board is empowered to nominate, consider and approve the relevant appointment of Directors, with the aim of appointing proper individuals with relevant professional expertise and experience into the Board to enhance the constitution of a strong and diverse Board and to contribute to the functioning of the Board through their continuous participation.

For the year ended 31 December 2007, the Board prudently considered the nomination of Mr. Jiang Xihe, Mr. Zhu Junsheng and Mr. Chen Shimin as non-executive Directors of the Company at a board meeting. The attendance of Directors at such Board meeting is as follows:

	Attendance prior to listing
Executive Directors:	
Mr. Hu Yueming (Chairman and Chief Executive Officer)	1/1
Mr. Chen Yongdao	1/1
Mr. Lu Xun	1/1
Mr. Li Shengqiang	1/1
Mr. Liu Jianguo	1/1
Mr. Liao Enrong	1/1
Mr. Li Cunzhang (Ceased to be a director due to his pass away on 10 August 2007)	1/1
Non-executive Directors:	
Mr. Zhu Keming	1/1
Mr. Zhang Wei	1/1
Mr. Wang Qi	1/1
Mr. Richard Andrew Cornish Piliero (Resigned on 9 October 2007)	1/1

AUDIT COMMITTEE

The Company established the audit committee on 8 June 2007 with written terms of reference which have been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Company as well as nominating and supervising external auditor and offering advices and recommendations to the Board of the Company.

The audit committee comprises three members, namely Mr. Jiang Xihe, Mr. Zhu Junsheng and Mr. Wang Qi, among which two of them are independent non-executive Directors. Mr. Jiang Xihe is the chairman of the audit committee.

The audit committee held one meeting for the year ended 31 December 2007 to (i) hear the work report prepared by supervisory and audit office of the Group; and (ii) review the interim report and connected transactions of the Group for the year 2007 and report the review conclusions to the Board. The attendance of Directors at such Board meetings is as follows:

	Attendance during the year
Mr. Jiang Xihe (Chairman of the Committee)	1/1
Mr. Zhu Junsheng	1/1
Mr. Wang Qi	1/1

The annual report for the year ended 31 December 2007 of the Group had been reviewed by the audit committee.

REMUNERATION OF AUDITOR

For the year ended 31 December 2007, the Group paid approximately RMB4,250,000 to our auditor for the audit services. There was no other non-audit service fees paid to the auditor during the year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTS

All Directors of the Company acknowledge their responsibility for the preparation of the financial reports of the Group. They also ensure the preparation is in compliance with the relevant laws, regulations and accounting principles and its publication are made in due course.

Reporting responsibility statement with respect to the financial reports of the Group made by the auditor of the Company is set out on pages 36 to 37 of the Independent Auditor's Report.

INTERNAL CONTROL

The Board takes full responsibility to maintain a sound and efficient internal control system for the Group to protect the shareholders' investment and the Group's assets, which is in the interests of the shareholders.

For the year 2007, the Company has conducted comprehensive internal control over the Group, including:

(1) Environment of Control

We ensured that an active and devoted Board, lofty moral values and stringent standards of conducts for the staff, effective human resource policies and a well-established organisational structure are in place in the Company, laying a solid foundation to create an environment of control of the Group with disciplines and structures.

(2) Risk Assessment

We fully identified and analysed risks, including business risks, financial risks, non-compliance risks and operation and other risks, which hinder our achievement of goals, based on the development strategies and corporate goals of the Group. We appointed an independent consultant to conduct in-depth review on concerned areas to reduce the risk exposure to a level which is acceptable and controllable by the Group. The Company has actively responded to the opinions of the independent consultant with follow-up work and will make detailed report to the Board. The Company has established a set of "Risk Management Procedures" to handle potential changes in external environments.

(3) Control Activities

The Company implemented various policies and procedures, including the comparison between actual performance and budgets, review of performance reports, inspection of processing of transaction information, physical control, the analysis of different index performance data as well as the definition of duties among various personnel. The Company has regularly monitored the implementation of the internal control system of the Group and continuously assessed its performance to ensure the effective running of the internal control system.

(4) Financial Management Mechanism

We have reviewed the financial structure, management reports, disclosure procedures and the preparation of budget of the Group to effectively understand and monitor the financial and trading conditions of the Group.

(5) Compliance Control

The Company has set up information disclosure rules on notifiable transactions and connected transactions and has designated personnel to be responsible for the compliance with Listing Rules of the Stock Exchange of Hong Kong.

In 2007, the Board have reviewed the internal control system of the Group based on the reports from the Management and independent consultant. Such review covered all critical aspects of the control, including financial control, operational control, compliance control and risk management functions. The Board confirmed that existing internal control system was sufficient and efficient during the year under review and till the publishing date of this annual report and accounts.

Deloitte.
德勤

TO THE MEMBERS OF
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
中國高速傳動設備集團有限公司
(incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 91, which comprise the consolidated balance sheets as at 31 December 2007, and the consolidated income statements, the consolidated statements of changes in equity and the consolidated cash flow statements for the year ended 31 December 2007, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2007 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
21 April 2008

Consolidated Income Statement

For the year ended 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
Revenue	7	**1,904,816**	1,184,307
Cost of sales		**(1,351,751)**	(843,544)
Gross profit		**553,065**	340,763
Other income	8	**192,308**	23,301
Distribution costs		**(79,320)**	(55,690)
Administrative expenses		**(282,210)**	(137,489)
Research and development costs		**(22,850)**	(14,660)
Finance costs	9	**(33,017)**	(41,536)
Share of loss of an associate		**(3,628)**	(836)
Loss on changes in fair value of convertible bonds		**—**	(20,111)
Profit before tax		**324,348**	93,742
Income tax expense	10	**(17,904)**	(3,514)
Profit for the year	11	**306,444**	90,228
Attributable to:			
Equity holders of the parent		**306,693**	85,648
Minority interests		**(249)**	4,580
		306,444	90,228
Dividends	13	**34,789**	86,000
Earnings per share - basic (RMB)	14	**0.29**	0.14

Consolidated Balance Sheet

As at 31 December 2007

	NOTES	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**1,405,364**	866,835
Prepaid lease payments	16	**49,893**	20,291
Intangible assets	17	**54,848**	29,877
Goodwill	18	**—**	—
Interest in an associate	19	**7,536**	11,164
Available-for-sale investments	21	**14,703**	1,350
Deposit paid for acquisition of prepaid lease payments	22	**114,210**	22,060
Deposits paid for acquisition of property, plant and equipment	22	**95,880**	—
Deferred tax assets	30	**8,283**	1,495
		1,750,717	953,072
CURRENT ASSETS			
Inventories	23	**646,107**	347,509
Prepaid lease payments	16	**1,226**	305
Available-for-sale investments	21	**43,000**	—
Trade and other receivables	24	**638,497**	530,242
Amount due from an associate	25	**10,906**	—
Amounts due from related parties	26	**1,716**	2,578
Pledged bank deposits	27	**177,265**	192,779
Bank balances and cash	27	**1,516,146**	196,098
		3,034,863	1,269,511
CURRENT LIABILITIES			
Trade and other payables	28	**1,156,074**	777,028
Amounts due to related parties	26	**—**	11,127
Tax liabilities		**15,557**	3,840
Bank borrowings - due within one year	29	**420,818**	612,615
		1,592,449	1,404,610
NET CURRENT ASSETS (LIABILITIES)		**1,442,414**	(135,099)
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,193,131**	817,973
NON-CURRENT LIABILITIES			
Bank borrowings - due after one year	29	**73,040**	284,586
Deferred tax liabilities	30	**12,224**	2,159
		85,264	286,745
		3,107,867	531,228

Consolidated Balance Sheet

As at 31 December 2007

	NOTE	2007 RMB'000	2006 RMB'000
CAPITAL AND RESERVES			
Share capital	31	**94,629**	12
Reserves		**3,009,916**	526,987
Equity attributable to equity holders of the parent		**3,104,545**	526,999
Minority interests		**3,322**	4,229
		3,107,867	531,228

The consolidated financial statements on pages 38 to 91 were approved and authorised for issue by the Board of Directors on 21 April 2008 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 Decemeber 2007

	Attributable to equity holders of the parent											
	Paid-in - capital/ Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Capital reserve RMB'000 (note a)	Statutory surplus reserve RMB'000 (note c)	Statutory welfare reserve RMB'000 (note c)	Other reserve RMB'000 (note d)	Investment revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2006	8	—	—	11,885	17,597	17,597	52,335	—	34,346	133,768	50,223	183,991
Profit for the year and total recognised income	—	—	—	—	—	—	—	—	85,648	85,648	4,580	90,228
Issue of ordinary shares	1	10,892	—	—	—	—	—	—	—	10,893	—	10,893
Issue of shares upon conversion of convertible bonds	3	162,830	—	—	—	—	—	—	—	162,833	—	162,833
Deemed capital contribution from shareholders (Note 33)	—	—	77,651	—	—	—	—	—	—	77,651	—	77,651
Capital contributions from minority shareholders	—	—	—	—	—	—	—	—	—	—	134,069	134,069
Transfer	—	—	—	—	17,597	(17,597)	—	—	—	—	—	—
Disposal of a subsidiary to related parties (Note a)	—	—	—	2,238	—	—	—	—	—	2,238	(9,962)	(7,724)
Reduction as a result of the liquidation of subsidiaries	—	—	—	—	—	—	—	—	—	—	(2,985)	(2,985)
Dividend paid	—	—	—	—	—	—	—	—	(86,000)	(86,000)	—	(86,000)
Appropiration	—	—	—	—	14,729	—	—	—	(14,729)	—	—	—
Acquisition of additional equity interests in subsidiaries by NGC (Note b)	—	—	—	123,611	—	—	—	—	—	123,611	(131,446)	(7,835)
Acquisition of additional equity interest in NGC (Note b)	—	—	—	16,357	—	—	—	—	—	16,357	(40,250)	(23,893)
At 31 December 2006	12	173,722	77,651	154,091	49,923	—	52,335	—	19,265	526,999	4,229	531,228
Gain on fair value change of available-for-sale investment, net of deferred tax liability	—	—	—	—	—	—	—	11,475	—	11,475	—	11,475
Profit for the year	—	—	—	—	—	—	—	—	306,693	306,693	(249)	306,444
Total recognised income (expense) for the year	—	—	—	—	—	—	—	11,475	306,693	318,168	(249)	317,919
Issue of ordinary shares at a premium	—	64,311	—	—	—	—	—	—	—	64,311	—	64,311
Issue of shares at premium through initial public offer	26,222	2,353,848	—	—	—	—	—	—	—	2,380,070	—	2,380,070
Issue of shares by capitalisation of share premium account	68,395	(68,395)	—	—	—	—	—	—	—	—	—	—
Transaction costs attributable to issue of shares	—	(150,602)	—	—	—	—	—	—	—	(150,602)	—	(150,602)
Dividend paid	—	—	—	—	—	—	—	—	(34,789)	(34,789)	—	(34,789)
Appropriation	—	—	—	—	32,307	—	—	—	(32,307)	—	—	—
Acquisition of additional equity interests in a subsidiary (Note b)	—	—	—	388	—	—	—	—	—	388	(658)	(270)
At 31 December 2007	94,629	2,372,884	77,651	154,479	82,230	—	52,335	11,475	258,862	3,104,545	3,322	3,107,867

Note a: During the year ended 31 December 2006, the Group disposed of its subsidiary to a shareholder of the Company and former shareholder of Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("NGC"). The difference between the total consideration and the net assets of the subsidiary at the disposal date has been credited to capital reserve as a contribution from the shareholder.

Note b: During the year ended 31 December 2007 and 2006, the Group acquired the additional equity interests in certain subsidiaries from a shareholder of the Company. The difference between the total consideration and the net assets of the certain subsidiaries at the respective acquisition date attributable to the additional equity interest acquired has been credited to capital reserve.

Note c: Pursuant to relevant laws and regulations in the PRC and the Articles of Association of the subsidiaries of the Company, they are required to make appropriation from profit after taxation to the PRC statutory surplus reserve and statutory welfare reserve at rates of 10% each.

The statutory surplus reserve may be used to make up losses incurred and, with approval from relevant government authorities, to increase capital. The statutory welfare reserve, subject to approval by the relevant board of directors, may be used for collective staff welfare.

In accordance with "Cai Qi 2007 no. 67, Notice of accounting treatment as a result of the implementation of the PRC Company Law", the balance of statutory welfare reserve at 31 December 2005 should be transferred to statutory surplus reserve. Further, effective from 1 January 2006, the appropriation to statutory welfare issue is no longer required.

Note d: The other reserve represents the net assets of NGC, which was contributed by the founder shareholders of NGC when the founder shareholders obtained control of NGC to the Group as well as the subsequent the acquisition of additional equity interest in NGC and contributed to the Group by the founder shareholders of NGC.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	NOTE	2007 RMB'000	2006 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		**324,348**	93,742
Adjustments for:			
Allowance for inventories		**4,216**	4,253
Amortisation of intangible assets		**9,312**	3,527
Bank interest income		**(49,932)**	(4,176)
Loss on change in fair value of convertible bonds		**—**	20,111
Depreciation of property, plant and equipment		**84,011**	57,078
Finance costs		**33,017**	41,536
Loss on disposal of property, plant and equipment		**4,753**	843
Loss on disposal of intangible assets		**1,225**	—
Impairment loss on trade and other receivables		**3,484**	4,957
Impairment of goodwill		**—**	306
Interest income arising from global offering of the Company's shares		**(119,811)**	—
Investment income		**—**	(63)
Release of prepaid lease payments		**1,069**	305
Share of loss of an associate		**3,628**	836
Operating cash flows before movements in working capital		**299,320**	223,255
Increase in inventories		**(302,814)**	(122,449)
Increase in trade and other receivables		**(111,739)**	(129,550)
Increase in trade and other payables		**338,509**	193,477
Increase in amount due from an associate		**(10,906)**	—
Cash generated from operations		**212,370**	164,733
Income tax paid		**(4,788)**	(6,599)
NET CASH FROM OPERATING ACTIVITIES		**207,582**	158,134
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		**(588,654)**	(396,379)
Deposits paid for acquisition of property, plant and equipment		**(95,880)**	—
Deposit paid for acquisition of prepaid lease payments		**(92,150)**	(16,000)
Purchase of available-for-sale investment		**(43,000)**	—
Expenditure on intangible assets		**(35,508)**	(16,251)
Prepaid lease payments paid		**(31,592)**	(2,980)
Acquisition of additional equity interests in subsidiaries		**(270)**	(32,034)
Interest received		**169,743**	4,176
Decrease (increase) in pledged bank deposits		**15,514**	(44,766)
Proceeds on disposal of property, plant and equipment		**16,021**	811
Repayment from related parties		**862**	10,415
Acquisition of investment in an associate		**—**	(12,000)
Reduction as a result of the liquidation of subsidiaries		**—**	(2,985)
Disposal of a subsidiary	34	**—**	19,896
Proceeds on disposal of available-for-sale investments		**—**	200
Dividends received from held-for-trading investment		**—**	63
NET CASH USED IN INVESTING ACTIVITIES		**(684,914)**	(487,834)

For the year ended 31 December 2007

	2007 RMB'000	2006 RMB'000
FINANCING ACTIVITIES		
Proceeds from global offering of the Company's shares	**2,380,070**	—
New bank borrowings raised	**820,024**	931,201
Issue of ordinary shares	**64,311**	10,893
Repayment of bank borrowings	**(1,223,367)**	(584,800)
Transaction cost attributable to issue of shares	**(150,602)**	—
Interest paid	**(47,140)**	(37,387)
Dividend paid	**(34,789)**	(86,124)
Repayment to related parties	**(11,127)**	(124,997)
Issue of convertible bonds	**—**	219,426
Capital contribution from minority shareholders	**—**	134,069
NET CASH FROM FINANCING ACTIVITIES	**1,797,380**	462,281
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,320,048**	132,581
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	**196,098**	63,517
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash	**1,516,146**	196,098

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 and its share are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") with effect from 4 July 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the section Corporate Information in the annual report.

Pursuant to the group reorganisation (the "Reorganisation") in preparation for the listing of the Company's shares on the Stock Exchange, the Company became the holding company of the group formed after the completion of the Reorganisation. The Reorganisation was completed on 30 December 2005 when the Company acquired 91% equity interest in NGC at a cash consideration of RMB134,473,000. Subsequent to the completion of the Reorganisation, the Company acquired the remaining approximately 9% equity interests in NGC during the year ended 31 December 2006 at an aggregate consideration of RMB23,893,000 and NGC became a wholly owned subsidiary of the Group in August 2006. Details of the Reorganisation were set out in the prospectus issued by the Company dated 20 June 2007 (the "Prospectus").

The Company acts as investment holding. Particulars of the principal activities of its subsidiaries and associate are set out in notes 41 and 19 respectively.

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

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

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are effective for the Group's financial year beginning 1 January 2007.

IAS 1 (Amendment)	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC 8	Scope of IFRS 2
IFRIC 9	Reassessment of Embedded Derivatives
IFRIC 10	Interim Financial Reporting and Impairment

The adoption of these new IFRSs had no material effect on how the results or financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 has been removed and the relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in the current year.

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

The Group has not early applied the following new and revised standards or interpretations that have been issued as at the date of this report but are not yet effective.

IAS 1 (Revised)	Presentation of Financial Statements[1]
IAS 23 (Revised)	Borrowing Costs[1]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
IAS32 & IAS1 (Amendment)	Putable Financial Instruments and obligations Arising on Liquidation[1]
IFRS 2	Share-based payment (Amendments relating to vesting condition and cancellations)[1]
IFRS 3 (Revised)	Business Combinations[2]
IFRS 8	Operating Segments[1]
IFRIC - INT 11	IFRS 2: Group and Treasury Share Transactions[3]
IFRIC - INT 12	Service Concession Arrangements[4]
IFRIC - INT 13	Customer Loyalty Programmes[5]
IFRIC - INT 14	IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 March 2007

[4] Effective for annual periods beginning on or after 1 January 2008

[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group, except for the adoption of IFRS 3 (revised) which may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in accounting policies set out below.

The consolidated financial statements have been prepared in accordance with IFRSs issued by the IASB. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

The principal accounting policies adopted are set out as follows:

Basis of consolidation

The consolidated financial statements incorporates the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Acquisition of additional interests in subsidiaries

When the Group increases its interest in a controlled entity, the difference between the consideration paid by the parent to minority shareholder and the carrying value of the ownership interests acquired by the parent is recognised in reserve.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the associate, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The Group recognises its interests in jointly controlled entities using proportionate consolidation. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the Group's similar line items, line by line, in the consolidated financial statements.

When a group entity transacts with a jointly controlled entity of the Group, unrealised profits or losses are eliminated to the extent to the Group's interest in the jointly controlled entity, except to the extent that unrealised losses provide evidence of an impairment of the asset transferred, in which case, the full amount of losses is recognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill

Goodwill arising on the acquisition of a subsidiary represents the excess of the cost of acquisition over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units that are expected to benefit from the synergies of the acquisition. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amount receivable for goods provided in the normal course of business, net of sales taxes and return.

Sale of goods are recognised when goods are delivered and title has passed.

Interest income from a financial asset is accrued on a time basis by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as "other income".

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment loss.

Depreciation is provided to write off the cost of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account their estimated residual value, using the straight line method.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the period in which the item is derecognised.

Prepaid lease payments

The payments made on the acquisition of interest in land are accounted for as an operating lease which are measured initially at cost and released to profit or loss on a straight-line basis over their relevant lease terms.

Intangible assets

Intangible assets acquired separately with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight line basis over their estimated useful lives.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development expenditure is recognised only if it is anticipated that the development costs incurred on a clearly-defined project will be recovered through future commercial activity. The resultant asset is amortised on a straight line basis over its useful life, and carried at cost less subsequent accumulated amortisation and any accumulated impairment losses.

Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is reported at cost less accumulated amortisation and accumulated impairment loss, on the same basis as intangible assets acquired separately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

Foreign currencies

In preparing the financial statements of each individual group entity, the transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items, that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised as and included in profit or loss in the period in which they are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes income statement items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet dates.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to the profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rentals payable under operating leases are charged to profit or loss on a straight line basis over the terms of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease terms on a straight line basis.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments, other than those financial assets at FVTPL, of which interest income is included in net gains or losses.

Financial assets at fair value through profit or loss

Financial assets at FVTPL of the Group includes financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages to together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, amount due from an associate, amounts due from related parties, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

Impairment of financial assets

Financial assets other than those at FVTPL are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its costs is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (Continued)

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 to 180 days and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liability designated as at FVTPL, of which the interest expense is included in net gains or losses.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss of the Group, including financial liabilities designated at fair value through profit or loss on initial recognition.

A financial liability is designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Convertible note

The convertible note of the Company consists of the liability component and embedded derivatives. The conversion option embedded in convertible note that will or may be settled other than by the exchange of a fixed amount of cash for a fixed number of the Company's own equity instruments is a derivative embedded in the financial liability. Derivatives embedded in a financial instrument are treated as separate derivatives when their economic risks and characteristics are not closely related to those of the host contract (the liability component).

The convertible note (including the embedded derivates) as a whole is designated as financial liabilities at FVTPL on initial recognition. At each balance sheet date subsequent to initial recognition, the entire convertible note is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Transaction costs that are directly attributable to the issue of the convertible note designated as financial liabilities at FVTPL are recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related parties and bank borrowings are subsequently measured at amortised cost, using the effective interest method.

Equity instruments

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

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Retirement benefit costs

Payments to defined contribution retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in Note 3, management makes various estimates and judgements (other than those involving estimates) based on past experience, expectations of the future and other information. The key source of estimation uncertainty that can significantly affect the amounts recognised in the consolidated financial statements is disclosed below.

Depreciation of property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group assesses annually the residual value and the useful life of the property, plant and equipment. If the expectation differs from the original estimate, such difference will impact the depreciation charged in the year in which such estimate is changed.

Allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgment and estimates. Where the expectation is different from the original estimate, such difference will impact carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed. During the year, the impairment loss recognised in the income statement approximated at RMB3,484,000 (2006: RMB4,957,000).

Allowance for inventories

Management exercises their judgement in making allowance for inventories. Management reviews the inventory listing at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in operation. During the year, the impairment loss for the inventories recognised in the income statement approximated at RMB4,216,000 (2006: 4,253,000).

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that the entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which included the borrowings disclosed in note 29 and equity attributable to equity holders of the parent, comprised share capital, retained profits and other reserves.

The management of the Group reviews the capital structure regularly, taking into account of the cost and risk associated with the capital. The Group will then balance its capital structure through the payment of dividends, new shares issues as well as the issue of new debt or the redemption of the existing debt.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2007 **RMB'000**	2006 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,162,691**	881,991
Available-for-sale investments	**57,703**	1,350
Financial liabilities		
Amortised cost	**1,216,745**	1,465,355

6b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, amounts due from an associate/related parties, trade and other payables, pledged bank deposits, bank balances and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Currency risk

The Group mainly operates in the PRC with mass of the transactions denominated in RMB, and the exposure in exchange rate risks mainly arises from the foreign currency sales and purchase and the bank balances and borrowings denominated in foreign currency. Approximately 14% of the Group's sales and 10% of the Group's purchase are denominated in currencies other than the functional currency of the Group entities.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(i) Currency risk *(Continued)*

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities as at reporting dates are as follows:

Assets

	2007	2006
	RMB'000	RMB'000
Australian Dollars (AUD)	**988,550**	—
United States Dollars (USD)	**45,297**	735
Euro (EUR)	**28,073**	—
Hong Kong Dollars (HKD)	**4,882**	—

Liabilities

	2007	2006
	RMB'000	RMB'000
United States Dollars (USD)	**494,283**	54,586

The Group does not have a foreign currency hedging policy. However, management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need rises.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk *(Continued)*

Sensitivity analysis

The Group is mainly exposed to the fluctuation of AUD, USD and EUR against RMB.

The following table details the Group's sensitivity to a 5% increase and decrease in RMB against the relevant foreign currencies. 5% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% change in foreign currency rates. A positive number below indicates an increase in profit where RMB strengthen 5% against the relevant currencies. For a 5% weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the profit, and the balances below would be negative.

	2007	2006
	RMB'000	RMB'000
AUD impact	**(49,448)**	—
USD impact	**22,449**	2,693
EUR impact	**(1,342)**	—

(ii) Interest rate risk

The Group is exposed to fair value and cash flow interest rate risk mainly related to fixed borrowings and available-for-sale debt investment and bank balances carried at prevailing interest rate respectively. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider other necessary action when significant interest rate exposure is anticipated.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for bank balances and available-for-sale investment at the balance sheet date. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by RMB7,796,000 (2006: increase/decrease by RMB980,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank balances.

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in available-for-sale debt investment.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(iii) Other price risk

The Group is exposed to price risk through its investments in listed equity securities. The management monitors the price risk and will consider hedging the risk exposure should the need arise.

Credit risk

At 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the risk, management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that following action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2007, five customers accounted for approximately 43.8% (31 December 2006: 27%) of the Group's trade receivables. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2007, the Group has available unutilised short-term bank loan facilities of approximately RMB1,317 million (2006: RMB262 million). Details of which are set out in note 29.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

The following table details the Group's contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

	Weighted average effective interest rate	0 - 30 days	31 - 90 days	90 - 365 days	1 - 5 years	Total undiscounted cash flows	Carrying amount
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2007							
Non-derivative financial liabilities							
Trade and other payables	**—**	**49,475**	**102,326**	**571,086**	**—**	**722,887**	**722,887**
Bank borrowings	**6.4319**	**36,196**	**72,392**	**325,763**	**77,738**	**512,089**	**493,858**
		85,671	**174,718**	**896,849**	**77,738**	**1,234,976**	**1,216,745**
2006							
Non-derivative financial liabilities							
Trade and other payables	—	141,565	235,216	185,155	—	561,936	561,936
Amounts due to related parties	—	11,127	—	—	—	11,127	11,127
Bank borrowings	6.3769	52,679	105,358	474,111	322,586	954,734	897,201
		205,371	340,574	659,266	322,586	1,527,797	1,470,264

6c. *Fair value*

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets (available-for-sale investments) with standard terms and conditions and traded on active liquid markets are determined with referred to quoted market bid prices and ask prices respectively; and

- The fair value of financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

7. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the net amounts received and receivable for goods sold, net of sales taxes and return, for the year. The Group's operation is regarded as a single segment, being the production and sale of gear products.

Primary report segment - geographical segments

The Group primarily operates in PRC, sales are made to PRC customers as well as customers in overseas. The Group's sales by geographical locations of customer are determined by the final destination to which the products are delivered irrespective of the origin of the goods:

	2007	2006
	RMB'000	RMB'000
Turnover		
- PRC	**1,590,587**	1,046,204
- Non-PRC	**314,229**	138,103
	1,904,816	1,184,307

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Primary report segment - geographical segments (Continued)

	2007 RMB'000	2006 RMB'000
Segment result		
- PRC	**402,801**	260,943
- Non-PRC	**79,166**	33,243
	481,967	294,186
Other income	**184,086**	14,188
Finance costs	**(33,017)**	(41,536)
Share of loss on an associate	**(3,628)**	(836)
Loss on changes in fair value of convertible bonds	**—**	(20,111)
Unallocated expenses	**(305,060)**	(152,149)
Profit before taxation	**324,348**	93,742
Taxation	**(17,904)**	(3,514)
Profit for the year	**306,444**	90,228
Assets and liabilities		
Segment assets		
- PRC	**376,542**	407,032
- Non-PRC	**64,811**	72,177
	441,353	479,209
Unallocated assets	**4,344,227**	1,742,374
Consolidated total assets	**4,785,580**	2,221,583

In the opinion of the directors, it is not practicable and meaningful to separate all the cost and expenses for each geographical segment except certain direct cost of sales and certain directly attributable selling and distribution expenses. In addition, except trade receivables from the customers in the respective segment, the remaining consolidated total assets and the entire consolidated total liabilities are presented as unallocated.

No geographical segment for other information is disclosed as additions of property, plant and equipment and intangible assets are substantially in the PRC. No carrying amount of segment assets by geographical location of the assets is disclosed as all of the production facilities of the Group are located in the PRC.

8. OTHER INCOME

	2007 RMB'000	2006 RMB'000
Interest income arising from subscription monies in relation to global offering of the Company's shares	**119,811**	—
Fair value changes on held-for-trading investments	**3,751**	63
Sales of scrap materials	**8,222**	9,113
Government grants (Note)	**8,124**	7,508
Bank interest income	**49,932**	4,176
Others	**2,468**	2,441
	192,308	23,301

Note: The amount represented the unconditional grants from the PRC government specifically for encouraging the Group's technology development in Jiangsu Province, the PRC.

9. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interests on bank borrowings wholly repayable within five years	**47,139**	36,440
Interest on convertible bonds	**—**	11,918
Less: amounts capitalised	**(14,122)**	(6,822)
	33,017	41,536

Borrowing cost capitialised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.07% (2006: 6.64%) to expenditure on qualifying assets.

10. INCOME TAX EXPENSE

	2007 RMB'000	2006 RMB'000
PRC enterprise income tax		
- Current year	**23,527**	15,134
- Underprovision in respect of prior year	**(783)**	572
- Other tax benefit	**(6,239)**	(13,279)
	16,505	2,427
Deferred tax (note 30)	**1,399**	1,087
	17,904	3,514

10. INCOME TAX EXPENSE *(Continued)*

PRC enterprise income tax is calculated at the tax rates prevailing under the relevant laws and regulations in the PRC.

NGC is an advanced technology enterprise and is established in Nanjing Economic Technology Industry Development Zone, Jiangsu Province. The applicable income tax rate for NGC is 15%. Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), Nanjing Dongalloy Machinery & Electronic Co, Ltd. ("Nanjing Dongalloy") and Nanjing Gaote Gear Box Manufacturing Co., Ltd. (formerly known as Nanjing Ningjiang Gear Box Manufacturing Co., Ltd.)("Gaote") are also advanced technology enterprises . Nanjing High Speed and Gaote are located in Jiangning Science Park while Nanjing Dongalloy is located in Nanjing New & High Technology Industry Development Zone. The applicable income tax rate is 15%.

All other subsidiaries of the Group are subject to an income tax rate of 33%.

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises, certain subsidiaries in the PRC are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit making year of operation and thereafter, they are entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. The local income tax of 3% was exempted during the tax holiday.

During the year, NGC and Gaote are entitled to 2 years exemption (2006: exempted) while Nanjing Dongalloy and Nanjing High Speed are entitled to 50% relief (2006: exempted) from enterprise income tax.

On 16 March 2007, the Standing Committee of the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for all the Company's PRC subsidiaries from 1 January 2008. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), those entities that previously enjoyed preferential tax treatment would be granted a five-year transitional period. The tax exemption and deduction from FEIT for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the New Law. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

There was no significant unprovided deferred taxation for the year or at the balance sheet date.

10. INCOME TAX EXPENSE *(Continued)*

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

	2007	2006
	RMB'000	RMB'000
Profit before tax	**324,348**	93,742
Tax at income tax rate of 33%	**107,035**	30,935
Income tax on concessionary rate and tax exemption	**(92,822)**	(33,333)
Tax effect of change in tax rate	**(592)**	—
Tax effect of expenses not deductible for tax purposes	**50,158**	18,452
Tax effect of income not taxable for tax purposes	**(38,800)**	(177)
Tax effect of tax losses not recognised	**540**	348
Utilisation of tax losses previously not recognised	**—**	(4)
(Over)underprovision in respect of prior year	**(783)**	572
Other tax benefit[(note)]	**(6,239)**	(13,279)
Decrease in opening deferred tax liability resulting from a decrease to applicable tax rate	**(593)**	—
Tax charge for the year	**17,904**	3,514

Details of deferred taxation for the year are set out in note 30.

Note: Pursuant to relevant regulations stipulated by the Ministry of Finance and the State Administration of Taxation, an enterprise is entitled to a tax benefit calculated at 40% of the current year's additions of equipment manufactured in the PRC. The tax benefit is deductible, however, limited to the amount of increase in enterprise income tax for the year in which the equipment is acquired as compared with the tax amount charge in the preceding year. The portion of the tax benefit that is not utilised can be carried forward for future application for a period not more than five years from the year in which the equipment is acquired.

During the year, the total tax benefit approved by the tax authorities entitled to the Group was RMB9,054,000 (2006: 16,994,000) of which amount of RMB6,239,000 (2006: 13,279,000) has been utilised to deduct the current year's income tax and the remaining would be carried forward to the preceding years. The future deductible tax benefit was not recognised as a deferred taxation as the future increase in income tax could not be reliably predicted.

11. PROFIT FOR THE YEAR

	2007 **RMB'000**	2006 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Staff costs, including directors' emoluments (note 12)	**242,225**	149,368
Less: staff cost included in research and development costs	**(9,661)**	(7,918)
Total staff costs, including directors' emoluments	**232,564**	141,450
Auditors' remuneration	**4,250**	4,523
Allowance for inventories	**4,216**	4,253
Amortisation of intangible assets (included in administrative expenses)	**9,312**	3,527
Cost of inventory recognised as expense	**1,347,535**	839,291
Depreciation of property, plant and equipment	**84,011**	57,078
Expenses relating to listing of shares (included in administrative expenses)	**24,840**	—
Exchange loss (included in administrative expenses)	**54,296**	—
Loss on disposal of property, plant and equipment	**4,753**	843
Loss on disposal of intangible asset	**1,225**	—
Impairment loss on trade and other receivables	**3,484**	4,957
Impairment of goodwill (included in administrative expenses)	**—**	306
Release of prepaid lease payments	**1,069**	305

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

	2007	2006
	RMB'000	RMB'000
Directors		
- fee	**—**	—
- salaries and other allowances	**6,824**	4,693
- retirement benefit plan contributions	**44**	79
Total emoluments	**6,868**	4,772
Hu Yueming	**1,269**	728
Chen Yongdao	**1,097**	658
Lu Xun	**1,097**	658
Li Shengqiang	**1,097**	658
Liu Jianguo	**1,097**	658
Liao Enrong	**1,097**	658
Li Chunzhong	**—**	658
Chen Shimin (Appointed on 8 June 2007)	**50**	—
Zhu Jun Sheng (Appointed on 8 June 2007)	**20**	—
Jiang Xihe (Appointed on 8 June 2007)	**20**	—
Zhang Wei	**6**	12
Zhu Kenming	**6**	12
Wang Qi	**6**	12
Richard Andrew Cornish Piliero (Resigned on 9 October 2007)	**6**	12
Pan Jinhong (Resigned on 1 March 2007)	**—**	12
Liu Xuezhong (Resigned on 1 March 2007)	**—**	12
Liu Zhen (Resigned on 1 March 2007)	**—**	12
He Mingqi (Resigned on 27 February 2007)	**—**	12
	6,868	4,772

Employees

The five highest paid individuals of the Group for both years are all directors, details of their remuneration are set out above.

During the year ended 31 December 2006 and 2007, no emoluments were paid by the Group to any of the directors or the five highest paid individuals (including directors and employee) as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

13. DIVIDENDS

	2007	2006
	RMB'000	RMB'000
Dividend of US$40.565, equivalent to RMB313.97 per ordinary share as the final dividend for 2006	**34,789**	—
Dividend paid by NGC to their shareholders (note)	**—**	86,000
	34,789	86,000

The final dividend of HK8 cents (2006: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

Note: The dividend paid in 2006 represented dividends paid by NGC according to the profit attributable to the former shareholders prior to the Reorganisation as disclosed in the prospectus dated 20 June 2007.

14. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

	2007	2006
	RMB'000	RMB'000
Earnings		
Earnings for the purposes of basic earnings per share	**306,693**	85,648

	2007	2006
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,066,151**	610,242

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted assuming that the share capitalisation occurred as at 1 January 2006.

No diluted earnings per share is presented for the year ended 31 December 2007 as there was no potential dilutive shares in issue.

No diluted earnings per share is presented for the year ended 31 December 2006 because the conversion of convertible bonds would result in an increase in earnings per share.

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Fixture and equipment	Transportation equipment	Construction in progress	Leasehold improvements	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2006	138,840	374,236	34,540	37,705	72,657	1,050	4,221	663,249
Additions	—	1,840	493	—	411,384	—	1,753	415,470
Transfer	33,825	129,486	2,245	7,546	(173,102)	—	—	—
Disposals	(739)	(1,557)	(100)	(347)	—	—	—	(2,743)
Disposals of a subsidiary	—	—	(28)	—	—	—	—	(28)
At 31 December 2006	171,926	504,005	37,150	44,904	310,939	1,050	5,974	1,075,948
Additions	185	9,908	1,077	106	631,722	—	316	643,314
Transfer	117,025	298,712	27,165	29,743	(472,645)	—	—	—
Disposals	(5,052)	(18,648)	(7,823)	(255)	—	—	—	(31,778)
At 31 December 2007	284,084	793,977	57,569	74,498	470,016	1,050	6,290	1,687,484
DEPRECIATION								
At 1 January 2006	13,759	104,467	14,698	16,734	—	315	3,151	153,124
Provided for the year	5,392	39,505	4,879	6,310	—	296	696	57,078
Eliminated on disposals	(189)	(720)	(68)	(112)	—	—	—	(1,089)
At 31 December 2006	18,962	143,252	19,509	22,932	—	611	3,847	209,113
Provided for the year	5,405	61,627	7,558	8,586	—	279	556	84,011
Eliminated on disposals	(732)	(2,981)	(7,075)	(216)	—	—	—	(11,004)
At 31 December 2007	23,635	201,898	19,992	31,302	—	890	4,403	282,120
CARRYING AMOUNTS								
At 31 December 2007	260,449	592,079	37,577	43,196	470,016	160	1,887	1,405,364
At 31 December 2006	152,964	360,753	17,641	21,972	310,939	439	2,127	866,835

The above items of property, plant and equipment other than construction in progress are depreciated on a straight line basis, after taking into account their estimated residual value, at the following rates per annum:

Buildings	2.8% - 6.5%
Plant and machinery	9.7% - 19.4%
Fixture and equipment	9.7% - 19.4%
Transportation equipment	16.2%
Leasehold improvements	the shorter of the lease terms or 33.3%
Software	20%

16. PREPAID LEASE PAYMENTS

	2007 RMB'000	2006 RMB'000
Medium-term land use rights in the PRC	**51,119**	20,596
Analysed for reporting purpose as:		
Current assets	**1,226**	305
Non-current assets	**49,893**	20,291
	51,119	20,596

The amount represent the land use rights which is situated the PRC with usage rights of 50 years.

17. INTANGIBLE ASSETS

	Development costs RMB'000	Technical know-how RMB'000	Total RMB'000
COST			
At 1 January 2006	16,963	1,500	18,463
Additions	16,251	—	16,251
At 31 December 2006	33,214	1,500	34,714
Additions	35,508	—	35,508
Disposals	—	(1,500)	(1,500)
At 31 December 2007	68,722	—	68,722
AMORTISATION			
At 1 January 2006	1,185	125	1,310
Charge for the year	3,377	150	3,527
At 31 December 2006	4,562	275	4,837
Charge for the year	9,312	—	9,312
Eliminated on disposals	—	(275)	(275)
At 31 December 2007	13,874	—	13,874
CARRYING AMOUNTS			
At 31 December 2007	54,848	—	54,848
At 31 December 2006	28,652	1,225	29,877

17. INTANGIBLE ASSETS *(Continued)*

The above intangible assets have definite useful lives, over which the assets are amortised. The amortisation period for development costs incurred on the Group's new products development is 5 years. Know-how are amortised on a straight line basis over a period of 10 years.

18. GOODWILL

	RMB'000
COST	
At 1 January 2006	—
Arising on acquisition of additional equity interest in a subsidiary	306
At 31 December 2006 and 2007	306
IMPAIRMENT	
At 1 January 2006	—
Impairment loss recognised for the year	306
At 31 December 2006 and 2007	306
CARRYING AMOUNTS	
At 31 December 2007	—
At 31 December 2006	—

The goodwill arose from the consideration paid in excess of the carrying amount of the equity interest acquired when the Group acquired Nanjang High Speed & Accurate Gear (Shenyang) Sales Co. Ltd. ("Shenyang Sales Co"). As at 31 December 2006, the directors of the Company assessed the recoverable amount of the goodwill and full impairment was made accordingly.

19. INTEREST IN AN ASSOCIATE

	As at 31 December	
	2007	2006
	RMB'000	RMB'000
Cost of unlisted investment in an associate	**12,000**	12,000
Share of post-acquisition loss	**(4,464)**	(836)
	7,536	11,164

As at 31 December 2007 and 2006, the Group had interests in the following associate:

Name of entity	Form of business structure	Place of establishment/principal place of operation	Class of share held	Proportion of nominal value of registered capital held by the Group	Principal activities
南京采埃孚船用傳動系統有限公司 ZF Nanjing Marine Propulsion Co., Ltd. ("ZF Nanjing")	Sino-foreign equity joint venture	The PRC	Registered	40%	Manufacture and sales of gear transmission equipment

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

	2007	2006
	RMB'000	RMB'000
Total assets	**48,530**	30,724
Total liabilities	**(29,680)**	(2,803)
Net assets	**18,850**	27,921
Group's share of net assets of an associate	**7,536**	11,164
Revenue	**26,662**	—
Loss for the year	**(9,071)**	(2,090)
Group's share of results of an associate for the year	**(3,628)**	(836)

20. JOINTLY CONTROLLED ENTITY

The Group has a 50% equity shareholding with equivalent voting power in Nanjing High Accurate Construction Equipment Co., Ltd. 南京高精工程設備有限公司, a joint venture established on 2 August 2006 in Nanjing, PRC.

The summarised financial information in respect of the Group's jointly controlled entity which is accounted for using proportionate consolidation with the line-by-line reporting format is set out below:

	2007 **RMB'000**	2006 RMB'000
Current assets	**37,150**	12,277
Non-current assets	**1,170**	120
Current liabilities	**26,662**	2,392
Non-current liabilities	**—**	—
Income	**25,406**	—
Expense	**23,752**	5

21. AVAILABLE-FOR-SALE INVESTMENTS

	2007 **RMB'000**	2006 RMB'000
Equity securities listed on PRC	**14,353**	1,000
Unlisted debt securities	**43,000**	—
Unlisted equity securities	**350**	350
	57,703	1,350
Analysed for reporting purpose as:		
Current assets	**43,000**	—
Non-current assets	**14,703**	1,350
	57,703	1,350

The fair value of listed equity securities has been determined by reference to bid price quoted in an active market.

The unlisted debt securities carried interest which vary based on returns on underlying government bonds and bills and discounted bank bills. The principal amounts are protected and in some case may be early redeemed by the Group at principal amount with secured interest. The maturity date are 28 January 2008 and 11 December 2009. As at 31 December 2007, the director considered that all the securities would be redeemed in 2008.

The unlisted investments represent investments in unlisted equity securities issued by entities incorporated in the PRC. They are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair value cannot be measured reliably.

22. DEPOSITS FOR ACQUISITION OF PREPAID LEASE PAYMENTS AND PROPERTY, PLANT AND EQUIPMENT

Balance as at 31 December 2007 represents deposits paid for acquisition of land use right and property, plant and equipment at an aggregate consideration of approximately RMB122 million and RMB483 million respectively.

Balance as at 31 December 2006 represented deposits paid for acquisition of land use right, at an aggregate consideration of approximately RMB34 million. The acquisition has been terminated and the deposit was fully refunded in 2007.

23. INVENTORIES

	2007	2006
	RMB'000	RMB'000
Raw materials	**93,236**	54,862
Work-in-progress	**455,981**	185,049
Finished goods	**96,890**	107,598
	646,107	347,509

24. TRADE AND OTHER RECEIVABLES

	2007	2006
	RMB'000	RMB'000
Notes receivable	**165,707**	204,183
Accounts receivables	**307,185**	303,081
Less: allowance for doubtful debts	**(31,539)**	(28,055)
Total trade receivables	**441,353**	479,209
Advances to suppliers	**157,230**	37,921
Value added tax recoverable	**24,609**	1,785
Other	**15,305**	11,327
Total trade and other receivables	**638,497**	530,242

24. TRADE AND OTHER RECEIVABLES *(Continued)*

The Group generally allows an average credit period of 90 days to 180 days to its trade customers. The following is an aged analysis of the trade receivables, net of allowance for doubtful debts, at the reporting date:

	2007 **RMB'000**	2006 RMB'000
0 - 90 days	**350,997**	318,458
91 - 120 days	**11,422**	49,877
121 - 180 days	**15,990**	60,647
181 - 365 days	**46,783**	35,121
Over 365 days	**16,161**	15,106
	441,353	479,209

The trade receivable balance are neither past due nor impaired at the reporting date for which the Group has not provided for impairment loss since they are mainly customer with good quality.

It is the Group's policy to make provision against debts which are past due. However, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB62,944,000 (2006: RMB50,227,000) which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable as there are continuing subsequent settlement. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2007 **RMB'000**	2006 RMB'000
181 - 365 days	**46,783**	35,121
over 365 days	**16,161**	15,106
Total	**62,944**	50,227

Movement in the allowance for doubtful debts

	2007 **HK$'000**	2006 HK$'000
Balance at beginning of the year	**28,055**	23,225
Impairment losses recognised	**3,484**	4,830
Balance at end of the year	**31,539**	28,055

25. AMOUNT DUE FROM AN ASSOCIATE

Being trade balance with ZF Nanjing with aged within 120 days. The amount is unsecured, interest free and within the credit term.

26. AMOUNTS DUE FROM/TO RELATED PARTIES

(a) Amounts due from related parties

Name of related parties	Relationship	2007 RMB'000	2006 RMB'000	Maximum amount outstanding during the year RMB'000
Nanjing High Speed Gear Industrial Development Co. Ltd. ("NGID")	Common beneficial shareholder	—	677	677
Nanjing Yuhuatai District Saihong Bridge Street Office	Holding company of minority shareholder of NGC	**1,716**	914	1,716
Other natural persons	Minority shareholder of NGC	—	987	987
		1,716	2,578	

The above balances are unsecured, non-interest bearing and repayable on demand.

(b) Amounts due to related parties

Name of related parties	Relationship	2007 RMB'000	2006 RMB'000
NGID	Common beneficial shareholder	—	156
Nine funds and/or sub-fund under the management of Value Partners Limited ("VPL Funds/Sub-Funds")	Shareholder	—	5,093
Development Partners Fund ("DPF")	Shareholder	—	2,939
Templeton Strategic Emerging Market Fuel II, LDC ("Templeton")	Shareholder	—	2,939
		—	11,127

The above balances are unsecured, non-interest bearing and are fully settled during the year.

27. PLEDGED BANK DEPOSITS AND BANK BALANCES AND CASH

The pledged bank deposits are used to secure bank borrowings which are payable within one year. Accordingly, the pledged bank deposits are classified as current assets. Bank balances and cash comprise cash held by the Group with the original maturity of three months or less.

Bank balances carry interest at market rates which range from 2.5% to 6.83% (2006: 0.5% to 0.72%). The pledged deposits carry fixed interest rate of 3% (2006: 2.25%). The pledged bank deposits will be released upon the settlement of relevant bank borrowings.

28. TRADE AND OTHER PAYABLES

	2007	2006
	RMB'000	RMB'000
Notes payable (note)	**313,232**	296,775
Account payables	**285,416**	188,672
Total trade payables	**598,648**	485,447
Advances from customers	**423,592**	210,484
Purchase of property, plant and equipment	**76,052**	35,515
Payroll and welfare payables	**23,524**	17,506
Accrued expenses	**4,319**	4,608
Value added tax payable	**5,276**	4,909
Others	**24,663**	18,559
	1,156,074	777,028

Note: Notes payable are secured by the Group's own assets as set out in note 36.

28. TRADE AND OTHER PAYABLES *(Continued)*

The following is an aged analysis of trade payables at the balance sheet date:

	2007 RMB'000	2006 RMB'000
0-30 days	**492,355**	165,429
31-60 days	**57,283**	88,207
61 - 180 days	**25,533**	215,504
181 - 365 days	**11,782**	8,376
Over 365 days	**11,695**	7,931
	598,648	485,447

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within with the credit timeframe.

29. BANK BORROWINGS

	2007 RMB'000	2006 RMB'000
The maturity profile of the unsecured bank borrowings is as follows:		
Within one year	**420,818**	612,615
More than one year, but not exceeding two years	**73,040**	50,000
More than two years, but not exceeding three years	**—**	180,000
More than three years, but not exceeding four years	**—**	—
More than four years, but not exceeding five years	**—**	54,586
	493,858	897,201
Less: Amount due within one year shown under current liabilities	**(420,818)**	(612,615)
Amount due over one year	**73,040**	284,586

As at 31 December 2007, the Group's borrowings that are denominated in currencies other than RMB (the functional currency) are US$67,609,000 (2006: US$7,000,000). All other bank borrowings are denominated in RMB.

29. BANK BORROWINGS *(Continued)*

The average effective interest rates (which are also equal to contracted interest rates) on the Group were as follows:

	2007	2006
	%	%
Fixed-rate borrowings	**6.4319**	6.3769

As at 31 December 2007, the Group had the banking facilities of RMB1,578 million (2006: RMB1,159 million), of which RMB1,317 million (2006: RMB262 million) was unutilised. Among the undrawn banking facilities, RMB1,080 million and RMB157 million and RMB80 million will mature in 2008, 2009 and 2010 respectively.

30. DEFERRED TAX

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the year:

	Doubtful debts allowance	**Inventories allowance**	**Capitalisation of research and development**	**Revaluation on investment**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2006	(417)	(680)	674	—	(423)
Charge to consolidated income statement	(450)	52	1,485	—	1,087
At 31 December 2006	(867)	(628)	2,159	—	664
Effect of change in tax rate	(3,391)	(419)	3,217	—	(593)
Charge to consolidated income statement	(588)	(2,390)	4,970	—	1,992
Charge to equity	—	—	—	1,878	1,878
At 31 December 2007	(4,846)	(3,437)	10,346	1,878	3,941

Note: The development costs were deductible for tax purpose in the year they were incurred while they were capitalised and subject to amortisation in the consolidated financial statements.

30. DEFERRED TAX *(Continued)*

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting presentation purposes:

	2007	2006
	RMB'000	RMB'000
Deferred tax assets	**(8,283)**	(1,495)
Deferred tax liabilities	**12,224**	2,159
	3,941	664

At the balance sheet date, the Group has unused tax losses of RMB3,700,000 (2006: RMB2,062,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB1,638,000 (2006: RMB1,056,000). The maximum benefit from unutilised tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits.

31. SHARE CAPITAL

		Number of shares	**Amount**	**Equivalent to**
		(in thousand)	US$'000	RMB'000
Ordinary of US$0.01 each				
Authorised:				
At 1 January 2006 and 31 December 2006		90,000	900	7,053
Increase in authorised share capital	(i)	2,910,000	29,100	226,980
At 31 December 2007		3,000,000	30,000	234,033
Issued and fully paid:				
At 1 January 2006		100	1	8
Issue of shares on 11 August 2006	(ii)	7	—	1
Issue of shares on conversion of convertible bond	(iii)	38	—	3
At 31 December 2006		145	1	12
Issued of new shares	(iv)	8	—	—
Allotment upon capitalisation	(v)	899,847	8,999	68,395
Issue by global offering	(vi)	345,000	3,450	26,222
At 31 December 2007		1,245,000	12,450	94,629

31. SHARE CAPITAL *(Continued)*

Notes:

(i) Pursuant to the written resolutions passed by the members of the Company on 8 June 2007, the authorised share capital of the Company was increased from USD900,000 to USD30,000,000 (equivalent to approximately RMB234,033,000) by the creation of additional 2,910,000,000 ordinary shares of US$0.01 each.

(ii) On 11 August 2006, 6,793 shares of US$0.01 each were allotted and issued at a total consideration of US$1,390,000.

(iii) On 22 December 2006, the Company further issued 38,523 ordinary shares of US$0.01 each upon the conversion of convertible bonds.

(iv) On 9 February 2007, General Electric Capital Equity Investments Ltd. ("GE Capital") entered into a share subscription agreement with the Company pursuant to which GE Capital agreed to subscribe for 7,648 ordinary shares of the Company at an aggregate consideration of US$8,500,000, equivalent to RMB64,311,000. The shares issued rank pari passu in all respects with the then existing shares.

(v) On 4 July 2007, the Company allotted and issued 899,847,036 ordinary shares of US$0.01 each as fully paid to the then shareholders by the capitalisation of an amount of US$8,998,470 (equivalent to approximately RMB68,395,000) in the share premium account of the Company.

(vi) On 4 July 2007, the Company issued a total of 300,000,000 ordinary shares of US$0.01 each at the price of HK$7.08 per share by means of global offering. On 5 July 2007, the Company issued additional 45,000,000 ordinary shares of US$0.01 each at the price of HK$7.08 per share by means of full exercise of the over-allotment option.

32. SHARE OPTION SCHEME

The Company's share option scheme (the Scheme), was adopted pursuant to a resolution passed on 8 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 8 June 2017. Under the Scheme, the Board of Directors of the Company may grant options to:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to the Company or any of tis subsidiaries; and

(iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to the Group, the assessment criteria of which are:

- contribution to the development and performance of the Group;
- quality of work performed for the Group;
- initiative and commitment in performing his/her duties; and
- length of service or contribution to the Group

32. SHARE OPTION SCHEME *(Continued)*

The total number of shares in respect of which option may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders to refresh the said limit to not exceed 30% of the issued share capital of the Company from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1 % of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of their associates in excess of 0.1% of the Company's share capital or with a value in excess of HK$ 5 million must be approved in advance by the Company's shareholders.

Option granted must be taken up within 12 months of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time from 12 months from the date of grant of share option to the 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and must be at least the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

Up to 31 December 2007, no option had been granted.

33. CONVERTIBLE BONDS

On 26 January 2006, the Company issued 5% convertible bonds ("CB") at a nominal value of USD28 million (approximately RMB219 million) to DPF, Templeton and VPL Funds/Sub-Funds ("CB Investors"), with each subscribed at par in the amounts of US$7,500,000, US$7,500,000 and US$13,000,000 respectively. The maturity date of the CB would be 25 January 2010, unless previously redeemed, converted, repurchased or cancelled. The CB would bear interest from the date of issue to the date of conversion or the date of redemption (as the case may be) at the rate of 5% per annum (or such higher percentage not exceeding 12.5% per annum as may be determined by resolution of the Board) payable annually in arrears on 15 April for each interest period.

Pursuant to the Conversion Agreement entered on 22 December 2006, DPF, Templeton and VPL Funds/Sub-Funds converted all of their CB into 10,319 Shares, 10,319 Shares and 17,885 Shares, respectively. Upon the conversion of the CB, the original shareholders of the Company further executed a mandatory purchase agreement ("MPR Agreements") on 22 December 2006. Pursuant to the MPR Agreement, the original shareholders of the Company agreed to grant a mandatory purchase right to the CB investors to require the original shareholders of the Company to purchase or to procure other person(s) to purchase at the exercise price all and not some only of the conversion shares still held by the CB investors as at 26 January 2010 (the "Mandatory Purchase Shares").

33. CONVERTIBLE BONDS *(Continued)*

The movement of CB for the current and prior year is set out below:

	RMB'000
Issue of CB on 26 January 2006	219,426
Loss on changes in fair value of CB up to the date of conversion	20,111
Converted by CB holder to shares of the Company	(162,833)
Deemed capital contribution from the original shareholders of the Company	(77,651)
Interest on CB	11,918
Interest payable to CB investors	(10,971)
As at 31 December 2006 and 2007	—

The fair value of the CB at initial recognition is USD28,000,000 (equivalent to RMB219,426,000). The fair value of US$9,436,000 (equivalent RMB77,561,000) of the mandatory purchase right at the date of grant, which is the same day as the date of conversion of the convertible bonds is using the Binomial option pricing model. Such amount has been viewed as deemed capital contribution from shareholders and credited to the deemed capital contribution reserve. The valuation of the fair value of the mandatory purchase right was carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers. The inputs into the Binominal option pricing model were as follows:

Equity value of the Company's shares	US$20,782,000
Exercise price	US$28,000,000
Time to maturity	3.1 years
Risk-free rate	4.64%
Volatility of the equity value of the Company	39.88%
Expected dividend yield	2.015%

34. DISPOSAL OF A SUBSIDIARY

Pursuant to the relevant resolution dated 3 January 2006, the Company's subsidiary, Nanjing High Speed has disposed of its entire equity interests of 66.7% in Nanjing Jingyuan Investment Co., Ltd. ("Jingyuan") to Nanjing High Speed Gear Industrial Development Co., Ltd ("NGID"), common beneficial holder (former shareholder of NGC), and Lianxin for a cash consideration of RMB 20,000,000.

34. DISPOSAL OF A SUBSIDIARY *(Continued)*

The net assets of Jingyuan at the date of disposal were as follows:

	RMB'000
Property, plant and equipment	28
Prepaid lease payments	17,838
Other receivables	10,920
Bank balances and cash	104
Other payables	(1,166)
	27,724
Minority interests	(9,962)
Discount on disposal credit to reserve	2,238
	20,000
Satisfied by:	
Cash	20,000
Net cash inflow arising on disposal:	
Cash consideration received	20,000
Bank balances and cash disposed of	(104)
	19,896

The subsidiary has no contribution to the financial results and cash flows of the Group for the period from 1 January 2006 to the date of disposal.

35. CAPITAL COMMITMENTS

	2007 RMB'000	2006 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**942,344**	256,587

36. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to banks to secure notes payable utilised by the Group:

	2007 **RMB'000**	2006 RMB'000
Notes receivable	**—**	4,250
Bank deposits	**177,265**	192,779
	177,265	197,029

37. OPERATING LEASES

Minimum lease payments paid under operating lease during the year:

	2007 **RMB'000**	2006 RMB'000
Premises	**2,831**	2,831

At the balance sheet date, the Group had outstanding commitments payable under non-cancellable operating lease in respect of rented premises which fall due as follows:

	2007 **RMB'000**	2006 RMB'000
Within one year	**2,123**	1,031
In the second to fifth year inclusive	**8,494**	4,125
After five years	**43,852**	41,248
	54,469	46,404

Operating lease payments represent rentals payable by the Group for two pieces of land, with one is fixed for 50 years and another is fixed for 10 years.

38. RETIREMENT BENEFIT PLANS

The employees of the Group are members of a state-managed retirement pension scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement pension scheme to fund the benefits. The only obligation of the Group with respect to the retirement pension scheme is to make the specified contributions. The costs charged to consolidated income statements during the year were RMB25,902,000 (2006: RMB17,793,000). All the contributions had been paid over to the scheme as at the balance sheet date.

39. RELATED PARTY DISCLOSURES

(I) Related party transactions

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

Name of company	Relationship	Nature of transactions	2007 RMB'000	2006 RMB'000
ZF Nanjing	Associate	Sales of goods	**10,714**	—
		Rental income	**853**	—
		other income	**136**	—
Goldwind Science & Technology Co., Ltd. ("Goldwind")	Minority shareholder of a subsidiary (note)	Sales of goods	**—**	188,381
Tianjin Xiandao Machinery and Electronics Co., Ltd.	Minority shareholder of a subsidiary	Purchase of materials	**—**	688
Nanjing Yuhuatai District Saihong Bridge Street Office	Holding company of minority shareholder of NGC	Rental expenses	**907**	1,800

Note: Goldwind has ceased to be the minority shareholder of the subsidiary of the Company since 30 December 2006.

(II) Related party balances

Details of the Group's outstanding balances with related parties are set out on the consolidated balance sheet and in note 26.

(III) Acquisition of subsidiaries

During the year ended 31 December 2006, the Group acquired the additional equity interests of certain subsidiaries from Nanjing Lianxin Venture Capital Co. Ltd., common beneficial shareholder (former shareholder of NGC), for a total consideration of RMB8,140,000.

During the year ended 31 December 2007, the Group acquired the additional equity interests of a subsidiary, "Shenyang Sales Co" from 高衛忠 (former minority shareholder of Shenyang Sales Co.) for a total consideration of RMB1,250,000.

(IV) Disposal of a subsidiary

As disclosed in Note 34, on 3 January 2006, the Group disposed its entire equity interest of Jingyuan to NGID, and Lianxin, for a cash consideration of RMB20,000,000.

(V) Compensation of key management personnel

Other than the emolument paid to the directors of the Company, who are also considered as the key management of the Group as set out in Note 12, the Group did not have any other significant compensation to key management personnel.

40. BALANCE SHEET OF THE COMPANY

	NOTE	2007 RMB'000	2006 RMB'000
Total assets		**3,072,666**	243,261
Total liabilities		**(423,885)**	(24,566)
		2,648,781	218,695
Capital and reserves			
Share capital		**94,629**	12
Reserves	(i)	**2,554,152**	218,683
		2,648,781	218,695

Note:

(i) Reserves

	Share premium RMB'000	Deemed capital distribution reserve RMB'000	Accumulated profits (losses) RMB'000	Total RMB'000
At 1 January 2006	—	—	(1)	(1)
Issued of ordinary shares	10,892	—	—	10,892
Issue of shares from conversion of convertible bonds	162,830	—	—	162,830
Deemed capital contribution from shareholders	—	77,651	—	77,651
Loss for the year	—	—	(32,689)	(32,689)
At 31 December 2006	173,722	77,651	(32,690)	218,683
Profit for the year	—	—	171,096	171,096
Issued of ordinary shares	64,311	—	—	64,311
Issued of shares at premium through initial public offerings	2,353,848	—	—	2,353,848
Issue of shares by capitalisation of share premium account	(68,395)	—	—	(68,395)
Transaction costs attributable to issue of new shares	(150,602)	—	—	(150,602)
Dividend paid	—	—	(34,789)	(34,789)
At 31 December 2007	2,372,884	77,651	103,617	2,554,152

41. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2007 and 2006 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activities
NGC[1] 南京高精齒輪集團有限公司	PRC 16 August 2001	RMB180,000,000	—	100	Manufacture and sales of gear, gear box and fittings
Nanjing High Speed[2] 南京高速齒輪製造有限公司	PRC 8 July 2003	RMB101,000,000	—	100	Manufacture and sales of gear, gear box and fittings
Nanjing Ningkai Mechanical Co., Ltd. ("Ningkai")[2] 南京寧凱機械有限公司	PRC 19 November 2002	RMB35,000,000	—	83.37	Engineering processing and manufacturing
Ningjiang[3] 南京高特齒輪箱製造有限公司	PRC 26 November 2003	US$1,393,264	—	100	Sales of gear, gear box and fitting
Nanjing Dongalloy[2] 南京寧嘉機電有限公司	PRC 26 September 1994	RMB5,317,125	—	100	Sales of gear and its fitting
Yongte[2] 南京永特齒輪箱製造有限公司	PRC 30 July 1990	RMB600,000	—	100	Manufacture of gear, gear box and its fitting
Nanjing Ningtai Property Management Co., Ltd.[2] 南京寧泰物業管理有限公司	PRC 25 August 2003	RMB300,000	—	85.03	Property management
Nanjing High Speed & Accurate Gear (Shenyang) Sales Co. Ltd.[2] 南京高精齒輪（瀋陽）銷售有限公司	PRC 17 January 2004	RMB1,800,000	—	100	Sales of gear, gear box and its fitting
Nanjing Wind Accurate Wind Power Transmission Equipment Co., Ltd.[2][5] 南京高精風能傳動設備有限公司	PRC 7 March 2005	RMB10,000,000	—	100	Sales of wind power transmissions equipment and its fitting

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

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activities
Nanjing High Accurate Marine Equipment Co., Ltd.(2) 南京高精船用設備有限公司	PRC 2 February 2007	RMB50,000,000	—	100	Inactive
Nanjing Ninghongjian Mechanical Co., Ltd.(4) 南京寧宏建機械有限公司	PRC 15 March 2007	RMB20,000,000	—	100	Engineering processing and manufacturing
Nanjing High Associate Drive Equipment Manufacturing Co. Ltd.(4) 南京高精傳動設備製造有限公司	PRC 27 March 2007	USD157,600,000	—	100	Manufacture and sales of gear box and fittings
Goodgain Group Limited	British Virgin Islands ("BVI") 22 March 2005	USD1	100	—	Investment holding
Eagle Nice Holdings Limited	BVI 22 March 2005	USD1	100	—	Inactive
China Transmission Holdings Limited(4) 中傳控股有限公司	Hong Kong 7 November 2007	HK$100	—	100	Investment holding

Note:

(1) wholly-foreign owned enterprise established in the PRC

(2) domestic enterprise established in the PRC

(3) sino-foreign owned enterprise established in the PRC

(4) these subsidiaries were incorporated during the year

(5) the subsidiary was deregistered on 31 December 2007

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

Financial Summary

For year ended 31st December, 2007

	Year ended 31 December			
	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS				
Revenue	688,865	946,686	1,184,307	**1,904,816**
Profit for the year	78,752	99,337	90,228	**306,444**

	As at 31 December			
	2004	2005	2006	**2007**
	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES				
Total assets	1,158,903	1,442,149	2,222,583	**4,785,580**
Total liabilities	(889,914)	(1,258,158)	(1,691,355)	**(1,677,713)**
	268,989	183,991	531,228	**3,107,867**
Attributable to:				
Equity holder of the parent	181,861	133,768	526,999	**3,104,545**
Minority interests	87,128	50,223	4,229	**3,322**
	268,989	183,991	531,228	**3,107,867**

Notes:

1. The financial information for each of the three years ended 31 December 2006 has been prepared upon the Reorganisation as if the group structure, at the time when the Company's shares were listed on the Stock Exchange, had been in existence throughout the years concerned. The results for the three years ended 31 December 2006, and the assets and liabilities as at 31 December 2004, 2005 and 2006 have been extracted from the Company's prospectus dated 20 June 2007.

2. The results for the year ended 31 December 2007, and the assets and liabilities as at 31 December 2007 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 38 to 40 of the annual report.