IMPORTANT

***If you are in any doubt** about any of the contents of this prospectus, you should obtain independent, professional advice.*

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)

GLOBAL OFFERING

Number of Offer Shares under the Global Offering	:	***300,000,000 Shares (subject to the Over-allotment Option)***
Number of Hong Kong Offer Shares	:	***30,000,000 Shares (subject to reallocation)***
Number of International Placing Shares	:	***270,000,000 Shares (subject to reallocation and the Over-allotment Option)***
Maximum Offer Price	:	***HK$7.08 per Offer Share (payable in full on application in Hong Kong dollars, subject to refund on final pricing), plus brokerage of 1%, a SFC transaction levy of 0.004% and a Stock Exchange trading fee of 0.005%***
Par value	:	***US$0.01 per Share***
Stock code	:	***658***

Sole Global Co-ordinator, Sponsor, Bookrunner and Lead Manager

Morgan Stanley

The Stock Exchange of Hong Kong Limited, or the Stock Exchange, and Hong Kong Securities Clearing Company Limited, or HKSCC, take no responsibility for the contents of this prospectus, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this prospectus.

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix VII to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by Section 342C of the Hong Kong Companies Ordinance, Chapter 32 of the Laws of Hong Kong. The Securities and Futures Commission of Hong Kong, or SFC, and the Registrar of Companies in Hong Kong take no responsibility as to the contents of this prospectus or any other documents referred to above.

The Offer Price is expected to be determined by agreement between us and the Global Co-ordinator (on behalf of the Underwriters) on the Price Determination Date or such later date as may be agreed by us and the Global Co-ordinator but in any event no later than Monday, 2 July 2007. The Offer Price will be not more than HK$7.08 per Offer Share and is currently expected to be not less than HK$5.38 per Offer Share. The Global Co-ordinator (on behalf of the Underwriters) may reduce the number of Hong Kong Offer Shares and/or the indicative Offer Price range stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such a case, a notice of the reduction of the number of Hong Kong Offer Shares and/or the indicative Offer Price range will be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) not later than the morning of the last day for lodging applications under the Global Offering. If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the number of Hong Kong Offer Shares and/or the indicative Offer Price range is so reduced, such applications cannot subsequently be withdrawn. If, for any reason, the Offer Price is not agreed between the Company and the Global Co-ordinator (on behalf of the Underwriters) on or before Monday, 2 July 2007, the Global Offering will not become unconditional and will lapse immediately.

We are incorporated under the laws of the Cayman Islands and our businesses are located in the PRC. Potential investors should be aware of the differences in the legal, economic and financial systems between these countries and Hong Kong. Potential investors should also be aware that the regulatory frameworks in these countries are different from the regulatory framework in Hong Kong and should take into consideration the different market nature of the Shares. Such differences and risk factors are set out in the section headed "Risk Factors" and "Appendix V — Summary of the Constitution of the Company and Cayman Islands Company Law" in this prospectus.

Pursuant to the force majeure provisions contained in the Underwriting Agreements in respect of the Offer Shares, the Global Co-ordinator, on behalf of the Underwriters, has the right in certain circumstances, in the sole and absolute discretion of the Global Co-ordinator, to terminate the obligations of the Underwriters pursuant to the Underwriting Agreements at any time prior to 8:00 a.m. (Hong Kong time) on the date when dealings in the Shares first commence on the Stock Exchange (such first dealing date is currently expected to be Wednesday, 4 July 2007). Further details of the terms of the force majeure provisions are set out in the section headed "Underwriting — Grounds for termination" in this prospectus.

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered, sold, pledged or transferred within the United States except that Offer Shares may be offered, sold or delivered to QIBs in reliance on an exemption from registration under the U.S. Securities Act provided by, and in accordance with the restrictions of, Rule 144A or outside the United States in accordance with Rule 903 or Rule 904 of Regulation S.

** For identification purpose only*

20 June 2007

The Company will issue an announcement in Hong Kong to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) if there is any change in the following expected timetable *(note 1)* of the Hong Kong Public Offering.

	Date
Application lists of the Hong Kong Public Offering open *(note 2)*	11:45 a.m. on Monday, 25 June 2007
Latest time for lodging **WHITE** and **YELLOW** Application Forms	12:00 noon on Monday, 25 June 2007
Latest time to give **electronic application instructions** to HKSCC *(notes 2 and 3)*	12:00 noon on Monday, 25 June 2007
Application lists of the Hong Kong Public Offering close	12:00 noon on Monday, 25 June 2007
Expected Price Determination Date *(note 4)*	Tuesday, 26 June 2007
Announcement of the Offer Price, the indication of the levels of interest in the International Placing, the results and the basis of allotment of the Hong Kong Offer Shares (with successful applicants' identification document numbers, where appropriate) to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) and posted on the website of the Company (www.chste.com) on	Tuesday, 3 July 2007
Despatch of Share certificates and refund cheques in respect of wholly or partially unsuccessful applications pursuant to the Hong Kong Public Offering on *(notes 5, 6 and 7)*	Tuesday, 3 July 2007
Dealings in Shares on the Stock Exchange to commence on	Wednesday, 4 July 2007

Notes:

(1) All times refer to Hong Kong local time. Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

(2) If there is a "black" rainstorm warning or a tropical cyclone warning signal number eight or above in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 25 June 2007, the application lists will not open on that day. Further information is set out in the section headed "How to Apply for the Hong Kong Offer Shares — 9. Effect of bad weather on the opening of the application lists" in this prospectus.

(3) Applicants who apply by giving electronic application instructions to HKSCC should refer to the section headed "How to Apply for the Hong Kong Offer Shares — 5. Applying by giving electronic application instructions to HKSCC" in this prospectus.

(4) The Price Determination Date is expected to be on or about Tuesday, 26 June 2007, and in any event will be on or before Monday, 2 July 2007. If, for any reason, the Offer Price is not agreed on or before Monday, 2 July 2007, the Global Offering will not proceed.

(5) The Company will not issue any temporary documents of title in respect of the Offer Shares. Share certificates will only become valid certificates of title at 8:00 a.m. on Wednesday, 4 July 2007 (Hong Kong time), provided that (i) the Global Offering has become unconditional in all respect and (ii) the right of termination in the Underwriting Agreements has not been exercised by the Global Co-ordinator (on behalf of the Underwriters) and neither of the Underwriting Agreements is otherwise terminated in accordance with its terms. Investors who trade Shares on the basis of publicly available allocation details prior to the receipt of Share certificates or prior to the Share certificates becoming valid certificates of title do so entirely at their own risk.

(6) Refund cheques will be issued in respect of wholly or partially unsuccessful applications and in respect of successful applications if the final Offer Price is less than the price payable on application. Part of your Hong Kong Identify Card number/passport number, or if you are joint applicants, part of the Hong Kong Identity Card number/passport number of the first-named applicant, provided by you may be printed on your refund cheque, if any. Such date would also be transferred to a third party for refund purpose. Your banker may require verification of your Hong Kong Identity Card number/passport number before encashment of your refund cheque. Inaccurate completion of your Hong Kong Identity Card number/passport number may lead to delay in encashment of or may invalidate your refund cheque.

(7) Applicants who apply on **WHITE** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques and (where applicable) Share certificates in person from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, may collect refund cheques and (where applicable) Share certificates in person from the Company's Hong Kong branch share registrar from 9:00 a.m. to 1:00 p.m. on Tuesday, 3 July 2007, or on the date notified by the Company as the date of despatch of Share certificates and refund of cheques. Identification and (where applicable) authorisation documents acceptable to the Company's Hong Kong branch share registrar must be produced at the time of collection.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect refund cheques in person may collect their refund cheques (if any) but may not elect to collect their Share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedure for collection of refund cheques for applicants who apply on **YELLOW** Application Forms for Shares is the same as that for **WHITE** Application Form applicants.

Applicants being individuals who opt for personal collection must not authorise any person to make collection on their behalf. Applicants being corporations which opt for personal collection must attend by their authorised representatives with letters of authorisation of their corporations stamped with the corporation's chops (being the name of the corporations). Both individuals and authorised representatives of corporations (as applicable) must produce, at the time of collection, evidence of identity and authority (as applicable) acceptable to the Company's Hong Kong branch share registrar.

Uncollected Share certificates and refund cheques will be despatched by ordinary post (at the applicants' own risk) to the addresses specified in the relevant Application Forms. Further information is set out in the section headed "How to Apply for the Hong Kong Offer Shares — 13. Publication of results, despatch/collection of share certificates and refund cheques" in this prospectus.

For details of the structure of the Global Offering, including conditions of the Hong Kong Public Offering, please refer to the section headed "Structure of the Global Offering".

You should rely only on the information contained in this prospectus and the Application Forms to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Global Co-ordinator, the Underwriters, any of their respective directors or any other person or party involved in the Global Offering.

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This summary aims to give you an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the whole document before you decide to invest in the Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Shares are summarised in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Shares.

OVERVIEW

We are one of the leading mechanical transmission equipment producers in the PRC with a history dating back to 1969. According to the first edition of the Gear Market Information published by CGMA in 2007, we are the leading supplier of mechanical transmission equipment for wind turbines in the PRC, accounting for approximately 90% of the market share in the PRC in 2006. We were recognised by CGMA in China Gear Industry Yearbook 2006 as one of the largest mechanical transmission equipment producers in the PRC in terms of reported sales revenue in 2005. We are engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment used in a wide range of industrial applications including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining.

Set out below is a breakdown of our products by sales volume and sales revenue for the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2006:

	NGC				The Group											
	For the period from 1 January 2004 to 25 February 2004				For the 2004 Period				For the year ended 31 December 2005				2006			
	Sales volume (tons)	%	Revenue (RMB in thousands)	%	Sales volume (tons)	%	Revenue (RMB in thousands)	%	Sales volume (tons)	%	Revenue (RMB in thousands)	%	Sales volume (tons)	%	Revenue (RMB in thousands)	%
High-speed Series Gear Transmission Equipment	14.7	0.7	974.1	1.2	337.3	1.7	22,682.8	3.3	525.1	2.0	27,518.3	2.9	345.7	1.2	17,713.9	1.5
Gear Transmission Equipment for Construction Materials	1,203.1	52.3	35,118.4	44.2	9,810.8	49.4	285,881.0	41.5	10,691.7	40.5	307,767.5	32.5	6,788.0	24.0	195,434.4	16.5
General Purpose Gear Transmission Equipment	240.4	10.4	9,567.8	12.1	2,017.8	10.1	78,014.4	11.3	2,294.1	8.7	90,198.9	9.5	3,575.0	12.6	139,184.3	11.8
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	613.2	26.6	24,876.9	31.3	3,590.5	18.1	146,052.7	21.2	7,574.6	28.7	301,021.7	31.8	7,137.7	25.2	289,162.5	24.4
Wind Gear Transmission Equipment	—	—	—	—	9.7	0.1	655.9	0.1	388.3	1.4	26,525.6	2.8	4,742.4	16.8	317,743.3	26.8
Marine Gear Transmission Equipment	—	—	—	—	—	—	—	—	13.0	0.1	717.9	0.1	58.0	0.2	3,167.9	0.3
Others *(note)*	230.1	10.0	8,874.9	11.2	4,107.4	20.6	155,578.0	22.6	4,902.0	18.6	192,936.5	20.4	5,671.5	20.0	221,900.8	18.7
Total	2,301.5	100.0	79,412.1	100.0	19,873.5	100.0	688,864.8	100.0	26,388.8	100.0	946,686.4	100.0	28,318.3	100.0	1,184,307.1	100.0

Note: The following table sets forth a breakdown of our sales volume and revenue generated from sales of other mechanical transmission equipment.

	NGC				The Group											
	For the period from 1 January 2004 to 25 February 2004				For the 2004 Period				For the year ended 31 December 2005				2006			
	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%
	(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)	
Others																
Mechanical transmission equipment for rubber production .	7	3.0	265.0	3.0	135	3.3	5,082.9	3.3	90	1.8	3,149.9	1.6	218	3.8	7,415.6	3.3
Mechanical transmission equipment for mixers	18	7.8	585.5	6.6	611	14.9	19,567.5	12.6	360	7.3	10,248.7	5.3	609	10.7	16,826.9	7.6
Mechanical transmission equipment for coupling machines .	3	1.3	106.3	1.2	17	0.4	656.0	0.4	43	0.9	1,712.3	0.9	27	0.5	1,094.0	0.5
Customised mechanical transmission equipment and related spare parts .	123	53.5	4,563.7	51.4	2,132	51.9	79,231.8	50.9	2,711	55.3	105,436.7	54.6	3,584	63.2	146,525.6	66.0
Spare parts	79	34.4	3,354.4	37.8	1,160	28.2	49,079.2	31.5	1,646	33.6	70,334.0	36.5	1,229	21.7	49,866.0	22.5
Engineering gears. . .	—	—	—	—	—	—	—	—	11	0.2	496.6	0.3	4	0.1	172.7	0.1
Locomotive gears . . .	—	—	—	—	52	1.3	1,960.6	1.3	41	0.9	1,558.3	0.8	—	—	—	—
Total	230	100.0	8,874.9	100.0	4,107	100.0	155,578.0	100.0	4,902	100.0	192,936.5	100.0	5,671	100.0	221,900.8	100.0

We sell our products in the PRC and also export our products to overseas markets. Our revenue generated from domestic sales and export sales accounted for 88.3% and 11.7%, respectively, for 2006.

COMPETITIVE STRENGTHS

We believe our historical success and future prospects are underpinned by a combination of competitive strengths, including:

- Strong research, design and development capabilities
- Strong market position and reputable customer base
- Diversified product portfolio and ability to improve production mix to cater to evolving market demand
- Competitive cost structure
- Superior and well-developed manufacturing capabilities
- Experienced management and operating team

STRATEGY

Our goal is to become one of the world-leading mechanical transmission equipment manufacturers specialising in the research, design, development, manufacture and distribution of high quality mechanical transmission equipment and related products. To this end, we plan to carry out or are in the process of carrying out the following plans:

- Expand our product range to cover a wider variety of high quality and specialised products
- Expand our production capacity to increase our production of Wind Gear Transmission Equipment, Marine Gear Transmission Equipment and mechanical transmission equipment for light rails and high-speed rails
- Continue to invest in research, design and development capabilities and strengthen our technological capabilities
- Broaden and strengthen relationships with our strategic business partners and develop new strategic business partnerships
- Invest in production facilities to manufacture raw materials for critical components for our products and secure supply for our manufacturing operations

RISK FACTORS

We believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorised into (i) risks related to our business; (ii) risks related to the PRC; and (iii) risks related to the Global Offering.

Risks related to our business

- We face significant competition in each of the markets in which we operate, which could materially and adversely affect us.
- We may experience shortages in the supply of raw materials which could materially affect our production process and planned expansion.
- We are subject to price fluctuations of raw materials which we may be unable to pass on to our customers.
- We rely on third parties in respect of certain production processes.
- Our products are subject to replacement risk and our research, design and development activities may not yield the benefits that we expect.
- The construction and installation of our new production facilities may not be completed within the time frame or at the cost levels originally anticipated and, as a result, we may not be able to implement our future plans for expansion.
- We need substantial capital for investing in, constructing or acquiring new production facilities and failure to obtain capital on reasonable commercial terms will increase our financing costs and cause delay in our expansion plans.
- Our results of operations depend on the conditions of the industries in which our customers operate, especially the wind power industry.
- Our success is dependent upon hiring and retaining qualified personnel and there may be a material adverse impact on us if we are unable to secure qualified personnel for our operations.
- We may not be able to adequately protect our intellectual property rights and industrial know-how, which could weaken our competitive position and affect our operations.
- Our future performance and reputation are dependent on our ability to keep developing new products.
- We have a limited operating history in manufacturing and selling mechanical transmission equipment for the wind turbine industry.

- Our sales of the Wind Gear Transmission Equipment are dependent on a limited number of customers including GE, the loss of whom may have a material adverse impact on our business.

- If our mechanical transmission equipment experiences any mechanical failure, our reputation may be harmed and we may have to replace such products and be subject to claims for consequential damages for any losses due to the failure of our mechanical transmission equipment.

- We may experience difficulty in collecting account receivables from our customers.

- Our insurance policies do not cover all operating risks.

- We are reliant on the PRC market and we may be unable to adjust our resources to other markets in the event of an economic downturn in the PRC.

- Power shortages could adversely affect our businesses.

- The Controlling Group has the ability to exercise control over us, which allows it to influence our business in ways that may not be in the interests of other Shareholders.

- We do not possess valid titles to certain properties that we own and we may be required to relocate our operations from those properties without proper titles or permits.

- Any decline in the ability of our operating subsidiaries and joint ventures to pay dividends to us would adversely affect our cash flow.

- Our business operations may be materially and adversely affected by our current liability position.

- Our results of operations are subject to cyclical fluctuations.

- We may experience difficulties in expanding in overseas markets.

Risks related to the PRC

- Changes in PRC Government regulations and policies in relation to the industries in which we or our customers operate may adversely affect our business operations.

- Political and economic policies of the PRC Government could affect our business, results of operations and financial condition.

- A slow-down of the PRC economy could adversely affect our business and growth prospects.

- The outbreak of any severe communicable disease in the PRC, if uncontrolled, may materially and adversely affect our results of operations.

- The PRC legal system is not fully developed and there are inherent uncertainties that could limit the legal protections available to our Shareholders.

- It may be difficult to effect service of process upon us or our Directors or executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.

- PRC Government control of currency conversion and future movements in exchange rates may adversely affect our ability to distribute dividends, increase competition from imports, affect the value of our net assets, earnings and dividends in foreign currency terms, or inhibit our ability to import equipment.

- If the favourable tax treatment that we currently receive is altered or eliminated, our business may be adversely affected.

Risks related to the Global Offering

- There has been no prior public market for our Shares, and an active trading market may not develop after the Global Offering.

- The liquidity and market prices of our Shares following the Global Offering may be volatile.

- Because the Offer Price is higher than the net tangible book value per Share, you will incur immediate dilution.

- A potential sale of Shares by our existing Shareholders could have an adverse effect on our Share price.

- You are cautioned not to place any undue reliance on whether the Global Co-ordinator will allocate the Additional GE Shares to GE Capital upon GE Capital exercising the Subscription Right when making your own investment decision.

- Dividends declared in the past may not be indicative of our dividend policy in the future.

- Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy successfully.

- There are risks associated with forward-looking statements.

- Certain facts and statistics contained in this prospectus have come from official government publications whose reliability cannot be assumed or assured.

- You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any projections, valuations, other forward-looking information or information about our Shareholders.

FINANCIAL INFORMATION

Basis of Preparation

This prospectus includes two accountants' reports as Appendix IA and Appendix IB, respectively:

- Appendix IA is the accountants' report of NGC (our principal operating subsidiary), which includes the consolidated financial statements of NGC as at 25 February 2004 and for the period from 1 January 2004 to 25 February 2004; and

- Appendix IB is the accountants' report of the Company, which includes the consolidated financial statements of the Company as at 31 December 2004 and for the period from 26 February 2004 (the date on which the Controlling Group, namely the Management Shareholders (who wholly-own Fortune Apex) Mr. Pan Jinhong (who wholly-owns Wiaearn) and Mr. Liu Xuezhong and his wife, Ms. Li Yuelan (who wholly-own Luckever), controlled more than 50% voting rights in NGC and its subsidiaries) to 31 December 2004 and as at and for the two years ended 31 December 2005 and 2006.

We have included in this prospectus separate accountants' reports and summary financial data for both NGC and the Company because, in accordance with IFRS, the transactions comprising our acquisition of NGC and its subsidiaries (which was completed on 26 February 2004) have been treated as an acquisition using merger accounting. Accordingly, our results of operations for the 2004 Period are not directly comparable to our results of operations for the two years ended 31 December 2005 and 2006. We are a holding company and have no operations of our own. We conduct our business operations through NGC and our subsidiaries.

The following is a summary of the consolidated results of NGC for the period from 1 January 2004 to 25 February 2004 and of the Group for the 2004 Period and the two financial years ended 31 December 2005 and 2006, which has been derived from and should be read in conjunction with the audited financial statements included in the accountants' reports set out in Appendices IA and IB to this prospectus. The financial statements of NGC and the Group have been prepared in accordance with IFRS.

Consolidated profit and loss accounts

	NGC	The Group		
	For the period from 1 January 2004 to 25 February 2004	For the 2004 Period	For the year ended 31 December 2005	For the year ended 31 December 2006
	(audited)	(audited)	(audited)	(audited)
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
Revenue	79.4	688.9	946.7	1,184.3
Cost of goods sold	(49.5)	(489.7)	(672.1)	(843.5)
Gross profit	29.9	199.2	274.6	340.8
Other income	1.4	9.7	14.3	23.3
Discount on acquisition of an additional interest in a subsidiary	—	6.5	—	—
Distribution costs	(5.3)	(31.6)	(44.2)	(55.7)
Administrative expenses	(13.6)	(85.1)	(102.6)	(137.5)
Research development costs	—	(4.2)	(8.3)	(14.7)
Finance costs	(2.6)	(13.5)	(21.2)	(41.6)
Share of loss of an associate	—	—	—	(0.8)
Changes in fair value of convertible bonds	—	—	—	(20.1)
Profit before taxation	9.8	81.0	112.6	93.7
Taxation	(2.2)	(2.2)	(13.3)	(3.5)
Profit for the period/year	7.6	78.8	99.3	90.2
Attributable to:				
Equity holders of NGC / the Company	7.4	37.8	81.7	85.6
Minority interest	0.2	41.0	17.6	4.6
	7.6	78.8	99.3	90.2
Dividend attributable to *(note 1)*:				
Equity holders of NGC / the Company	—	—	50.0	86.0
Minority interest	—	—	14.3	—
	—	—	64.3	86.0
Earnings per Share				
- basic (RMB) *(note 2)*	N/A	0.30	0.17	0.14

For additional information on the track record of our Company, please refer to the section headed "Financial Information" in this prospectus and Appendices IA and IB to this prospectus.

Notes:

(1) Our subsidiary, NGC, declared dividends in the amount of RMB50.0 million during the year ended 31 December 2005. NGC paid the RMB50.0 million dividends during the year ended 31 December 2005 from its distributable profits for the year ended 31 December 2004. In 2006, NGC paid dividends in the amount of RMB86.0 million from its distributable profits for the year ended 31 December 2005. NGC declared dividends in the amount of RMB58.8 million from its distributable profits for the year ended 31 December 2006 to the Company on 26 February 2007. We paid dividends to our Shareholders in the amount of US$4.5 million in May 2007. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of the Board and subject to Shareholders' approval.

(2) Basic earnings per share were arrived at by dividing the profit for the period/year attributable to equity holders of the parent by the weighted average number of outstanding shares during the period/year.

FORECAST FOR THE YEAR ENDING 31 DECEMBER 2007

In the absence of any unforeseen circumstances and on the bases and assumptions set out in Appendix III to this prospectus, certain forecast data of our Group for the year ending 31 December 2007 are set forth below:

Forecast consolidated profit after tax and minority interests but before extraordinary items *(note 1)*	not less than RMB180 million
Unaudited pro forma forecast earnings per Share *(note 2)*	not less than RMB0.15

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2007 have been prepared are summarised in Appendix III to this prospectus.

(2) The calculation of unaudited pro forma forecast earnings per Share is calculated by dividing the forecast consolidated profit after tax and minority interests but before extraordinary items of our Group for the year ending 31 December 2007 by a total of 1,200,000,000 Shares (assuming the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2007 but without taking into account any Shares which may fall to be issued upon exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and Repurchase Mandate).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

OFFER STATISTICS

	Based on an Offer Price of HK$5.38 per Share	Based on an Offer Price of HK$7.08 per Share
Market capitalisation of the Shares *(note 1)*	HK$6,456 million	HK$8,496 million
Forecast price/earnings multiple *(note 2)*		
— weighted average *(note 3)*	30.6 times	40.3 times
— pro forma fully diluted *(note 4)*	35.2 times	46.3 times
Unaudited pro forma adjusted net tangible asset value per Share *(note 5)*	HK$1.65	HK$2.06

Notes:

(1) The calculation of the market capitalisation of the Shares is based on 1,200,000,000 Shares in issue immediately after completion of the Global Offering and the Capitalisation Issue but does not take into account any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

(2) The bases on which the forecast earnings have been prepared are set out on page III-1 in Appendix III to this prospectus.

(3) The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast consolidated net profit attributable to equity holders of the Company for the year ending 31 December 2007 and a weighted average number of approximately 1,044,082,192 Shares issued and outstanding during the year. This calculation assumes that the Over-allotment Option is not exercised and the Shares issued pursuant to the Global Offering will be issued on 4 July 2007.

(4) The calculation of price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share on a pro forma fully diluted basis for the year ending 31 December 2007 of RMB0.15 (HK$0.15) at the respective Offer Price of HK$5.38 and HK$7.08 per Share assuming that the Over-allotment Option is not exercised and the 1,200,000,000 Shares were in issue (assuming the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2007 but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and Repurchase Mandate).

(5) The unaudited pro forma adjusted net tangible asset value per Share has been arrived at after the adjustments referred to in the section headed “Financial Information” in this prospectus and on the basis of 1,200,000,000 Shares in issue at the respective Offer Price of HK$5.38 and HK$7.08 per Share immediately following completion of the Global Offering and the Capitalisation Issue but without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option or any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and the Repurchase Mandate.

DIVIDEND POLICY

Our Directors may declare dividends, if any, after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. A distribution of dividend for any financial year shall be subject to Shareholders' approval.

USE OF PROCEEDS

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK$6.23 per Share (being the mid-point of the estimated price range), we estimate that the net proceeds to us from the Global Offering will be approximately HK$1,715 million, after deducting the underwriting commissions and other estimated expenses payable by us in relation to the Global Offering. We intend to use the net proceeds from the Global Offering as follows:

- approximately 60.0% will be used for research, development and further production capacity expansion in relation to Wind Gear Transmission Equipment;

- approximately 20.0% will be used for research, development and production of Marine Gear Transmission Equipment and other marine vessel related products;

- approximately 5.0% will be used for research, development and production of mechanical transmission equipment for light rails and high-speed rails;

- approximately 5.0% will be used for investments in production facilities to manufacture raw materials for critical components (such as forged steel and cast iron products) for our products; and

- approximately 10.0% will be used for our general working capital.

In the event that the Over-allotment Option is exercised, the additional net proceeds of about HK$268 million (assuming the Offer Price is determined at the mid-point of the stated range) will be applied by our Company as in the same proportions as set out above. To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, we presently intend that such proceeds will be placed on short-term deposits with licensed banks or financial institutions in Hong Kong.

In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.

"2004 Period"	the period from 26 February 2004 to 31 December 2004.
"Application Form(s)"	WHITE application form(s) and YELLOW application form(s) or, where the context so requires, either of them.
"Articles of Association" or "Articles"	the articles of association of our Company conditionally adopted on 8 June 2007, as amended from time to time.
"associate(s)"	has the meaning ascribed thereto in the Listing Rules.
"average selling price"	average selling price for any given product is calculated by dividing the revenue for such product by the sales volume for such product.
"Banking Ordinance"	Banking Ordinance, Chapter 155 of the Laws of Hong Kong.
"Board"	our board of Directors.
"Business Day"	any day (other than a Saturday or a Sunday) on which banks in Hong Kong are generally open for normal banking business.
"BVI"	the British Virgin Islands.
"BVI Shareholders"	Fortune Apex, Maxjoy, Luckever, Golden Step, Wiaearn, Forebright and SOF(I).
"Capitalisation Issue"	the issue of Shares to be made upon capitalisation of part of the amount standing to the credit of the share premium account of our Company referred to in the section headed "Written resolutions of the Shareholders passed on 8 June 2007" in Appendix VI to this prospectus.
"CGMA"	中國齒輪專業協會 (China Gear Manufacturers Association).
"CCASS"	the Central Clearing and Settlement System established and operated by HKSCC.
"CCASS Broker Participant"	a person admitted to participate in CCASS as a broker participant.
"CCASS Custodian Participant"	a person admitted to participate in CCASS as a custodian participant.

"CCASS Investor Participant"	a person admitted to participate in CCASS as an investor participant who may be an individual or joint individuals or a corporation.
"CCASS Participant"	a CCASS Broker Participant, CCASS Custodian Participant or a CCASS Investor Participant.
"China" or "PRC"	the People's Republic of China, but for the purposes of this prospectus and for geographical reference only (unless otherwise indicated), excluding Taiwan, the Macau Special Administrative Region of the PRC and Hong Kong.
"Companies Law"	the Companies Law (2004 Revision) of the Cayman Islands.
"Company" or "our Company"	China High Speed Transmission Equipment Group Co., Ltd. (中國高速傳動設備集團有限公司 *), formerly known as NSA Group Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability on 22 March 2005.
"connected person"	shall have the same meaning as defined in the Listing Rules.
"Controlling Group"	the Management Shareholders (acting through Fortune Apex), Mr. Pan Jinhong (acting through Wiaearn) and Mr. Liu Xuezhong and his wife Ms. Li Yuelan (acting through Luckever) who, together, have acted as a group of controlling shareholders and have been maintaining a controlling status in our Group since 26 February 2004 and will continue to be a group of controlling shareholders of our Company after Listing, holding approximately 45.60% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"controlling shareholder(s)"	shall have the same meaning as defined in the Listing Rules.
"Convertible Bonds"	convertible bonds in the principal amount of US$28,000,000 issued by our Company to the Pre-IPO Investors on 26 January 2006.
"Covenantor(s)" or "Indemnifier(s)"	Fortune Apex, Wiaearn and Luckever or any one of them.
"CSRC"	China Securities Regulatory Commission.
"Dahe"	南京大賀裝飾工程有限公司 (Nanjing Dahe Decoration & Engineering Co., Ltd.), formerly known as 南京大賀照明工程有限公司 (Nanjing Dahe Lighting Engineering Co., Ltd.), a company incorporated in the PRC as a limited liability company and a former shareholder of NGC.
"Director(s)" or "our Director(s)"	director(s) of our Company or any one of them.

"Dongfang"	東方電氣集團東方氣輪機有限公司 (Dongfang Turbine Co., Ltd.), one of the leading manufacturers of wind turbines in China and one of our major customers for Wind Gear Transmission Equipment.
"DPF"	Development Partners Fund (a fund not authorised by the SFC and not available generally to the public in Hong Kong), a company incorporated in the Cayman Islands who will hold approximately 4.53% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Forebright"	Forebright Management Limited, a company incorporated in the BVI with limited liability, which is controlled by members of the management of SOF(I) and will hold approximately 0.11% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Fortune Apex"	Fortune Apex Limited, a BVI company wholly-owned by the Management Shareholders, being a Shareholder holding approximately 27.45% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills"	our series of mechanical transmission equipment which are mainly used for plate-rolling mills, bar-rolling mills and high-speed fine wire-rolling mills.
"Gear Transmission Equipment for Construction Materials"	our series of mechanical transmission equipment which are mainly used in crushing machinery for cement production and crushing machinery for the coal industry.
"GE"	General Electric Company and/or its direct and indirect subsidiaries.
"GE Capital"	GE Capital Equity Investments Ltd., an indirect wholly-owned subsidiary of GE.
"GE Energy"	the energy business unit within the "GE Infrastructure" business of GE.
"GE Subscription Agreement"	the share subscription agreement dated 8 February 2007 entered into between our Company and GE Capital.
"General Purpose Gear Transmission Equipment"	our series of general purpose mechanical transmission equipment which are mainly used in the metallurgy, mining, petrochemical, power generation and textile industries. These series of mechanical transmission equipment are also used for conveyor belts and lifting devices.

"GDP"	gross domestic product (all references to GDP growth rates are to real as opposed to nominal rates of GDP growth).
"Global Offering"	the Hong Kong Public Offering and the International Placing.
"Golden Step"	Golden Step Group Limited, a company incorporated in the BVI with limited liability, which is owned and controlled by Mr. Wang Zhengqin and Mr. Wang Zhengwei and will hold approximately 0.78% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Goldwind"	新疆金風科技股份有限公司 (Goldwind Science and Technology Co., Ltd), one of the leading manufacturers of wind turbines in China and one of our major customers for Wind Gear Transmission Equipment.
"Group", "our Group", "our", "we" or "us"	the Company and its subsidiaries or where the text refers to any time before the Company became the holding company of its present subsidiaries, the Company's present subsidiaries and the business currently operated by such subsidiaries as the case may be or where the text refers to the period from 1 January 2004 to 25 February 2004, NGC and its then subsidiaries.
"High-speed Series Gear Transmission Equipment"	our series of special purpose mechanical transmission equipment which are mainly used in the power generation, metallurgy, petrochemical, aerospace and scientific research and development industries.
"HKSCC"	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited.
"HKSCC Nominees"	HKSCC Nominees Limited.
"HK$" or "HK dollars" or "cents"	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong.
"Hong Kong Companies Ordinance"	the Companies Ordinance (Chapter 32 of the laws of Hong Kong) as amended, supplemented or otherwise modified from time to time.
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC.
"Hong Kong Offer Shares"	the Shares offered by us for subscription pursuant to the Hong Kong Public Offering.

"Hong Kong Public Offering"	the offering by our Company of initially 30,000,000 Shares for subscription by the public in Hong Kong (subject to adjustment as described in the section headed "Structure of the Global Offering" in this prospectus) for cash at the Offer Price (plus brokerage of 1% of the Offer Price, SFC transaction levy of 0.004% of the Offer Price and Stock Exchange trading fee of 0.005% of the Offer Price) on the terms and conditions described in this prospectus and the Application Forms.
"Hong Kong Underwriters"	the underwriters of the Hong Kong Public Offering listed in the section headed "Underwriting — Hong Kong Underwriters" in this prospectus.
"Hong Kong Underwriting Agreement"	the underwriting agreement dated 18 June 2007 relating to the Hong Kong Public Offering entered into by, among others, the Global Co-ordinator, the Hong Kong Underwriters and us as further described in the section headed "Underwriting — Underwriting arrangements and expenses — (a) Hong Kong Public Offering" in this prospectus.
"IFRS"	the International Financial Reporting Standards, which include standards and interpretations approved by the International Accounting Standards Board (IASB), and the International Accounting Standards (IAS) and interpretations issued by the International Accounting Standards Committee (IASC).
"International Placing"	the conditional placing of initially 270,000,000 Shares by the International Underwriters with professional and institutional investors for cash at the Offer Price outside the United States upon reliance on Regulation S and in the United States to QIBs upon reliance on Rule 144A or another exemption from the registration requirement of the U.S. Securities Act, as further described in the section headed "Structure of the Global Offering" in this prospectus.
"International Placing Shares"	the Shares offered pursuant to the International Placing.
"International Underwriters"	the underwriters of the International Placing listed in the section headed "Underwriting — International Underwriters" in this prospectus.
"International Underwriting Agreement"	the underwriting agreement expected to be entered into on or before 26 June 2007 by, among others, the Global Co-ordinator, the International Underwriters and us in respect of the International Placing, as further described in the section headed "Underwriting — Underwriting arrangements and expenses — (b) International Placing".

"Issuing Mandate"	the general unconditional mandate given to our Directors by the Shareholders relating to the issue of new Shares, further details of which are contained in the section headed "Written resolutions of the Shareholders passed on 8 June 2007" in Appendix VI to this prospectus.
"Jiangsu VC"	江蘇高科技投資集團有限公司 (Jiangsu Hi-Tech Venture Capital Co. Ltd.), formerly known as 江蘇省創業投資有限公司 (Jiangsu Venture Capital Investment Co., Ltd.), a company incorporated in the PRC as a limited liability company, which is a former shareholder of NGC and will indirectly hold approximately 3.46% of our issued share capital through Wise-Win upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Latest Practicable Date"	13 June 2007, being the latest practicable date for the inclusion of certain information in this prospectus prior to its publication.
"Lianxin"	南京聯欣創業投資有限公司 (Nanjing Lianxin Carve Out Investment Co., Ltd.), a company incorporated in the PRC as a limited liability company, which was wholly-owned and controlled by the Management Shareholders.
"Listing"	listing of the Shares on the Stock Exchange.
"Listing Committee"	the Listing Committee of the Stock Exchange.
"Listing Date"	the date, expected to be on or about 4 July 2007, on which our Shares are listed and dealings in our Shares commence on the Stock Exchange.
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange.
"Luckever"	Luckever Holdings Limited, a company incorporated in the BVI with limited liability owned and controlled by Mr. Liu Xuezhong and his wife, Ms. Li Yuelan, being a Shareholder who will hold approximately 13.13% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Management Shareholders"	Messrs. Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang, Li Shengqiang, Jin Maoji, Liao Enrong, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguo. They are all PRC nationals and are members of the Controlling Group acting in concert through Fortune Apex.

"Marine Gear Transmission Equipment"	our series of mechanical transmission equipment which are mainly used for propeller transmission in a variety of marine vessels, including yachts, work boats, fishing boats and other marine applications.
"Maxjoy"	Maxjoy Holdings Limited, a company incorporated in the BVI with limited liability, which is owned and controlled by Mr. Yin Shouyuan, Ms. Wang Yachan and Ms. Zhao Yunzong and will hold approximately 0.97% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Memorandum of Association" or "Memorandum"	the memorandum of association of our Company adopted on 8 June 2007, as amended from time to time.
"Morgan Stanley" or "Global Co-ordinator" or "Sponsor"	Morgan Stanley Asia Limited, a deemed licenced corporation under the SFO permitted to engage in types 1, 4 and 6 of the regulation activities (as defined under the SFO), acting as the sole global co-ordinator, bookrunner, lead manager of the Global Offering and sole sponsor to the Listing.
"Nanjing AIC"	南京市工商行政管理局 (Nanjing Municipal Administration of Industry and Commerce).
"Nanjing Dongalloy"	南京寧嘉機電有限公司 (Nanjing Dongalloy Machinery & Electronics Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect wholly-owned subsidiary of our Company.
"Nanjing Engineering"	南京高精工程設備有限公司 (Nanjing High Accurate Construction Equipment Co., Ltd.), a company incorporated in the PRC as a limited liability company and a jointly controlled entity of our Company.
"Nanjing High Speed"	南京高速齒輪製造有限公司 (Nanjing High Speed Gear Manufacturing Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect wholly-owned subsidiary of our Company.
"Nanjing Marine"	南京高精船用設備有限公司 (Nanjing High Accurate Marine Equipment Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect wholly-owned subsidiary of our Company.
"Nanjing Transmission"	南京高精傳動設備製造有限公司 (Nanjing High Accurate Drive Equipment Manufacturing Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect wholly-owned subsidiary of our Company.

"Nanjing Wind Power"	南京高精風能傳動設備有限公司 (Nanjing High Accurate Wind Power Transmission Equipment Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect wholly-owned subsidiary of our Company.
"New VPL Funds/Sub-Funds"	nine funds and/or sub-funds under the management of Value Partners Limited which will in aggregate hold approximately 7.86% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"NGC"	南京高精齒輪集團有限公司 (Nanjing High Speed & Accurate Gear (Group) Co., Ltd.), formerly known as 南京高精齒輪股份有限公司 (Nanjing High Speed & Accuracy Gear Co., Ltd.) and 南京高精齒輪有限公司 (Nanjing High Speed & Accurate Gear Ltd.), a joint stock limited company incorporated in the PRC on 16 August 2001. It was converted into a limited liability company on 6 September 2005, then a Sino-foreign joint venture on 15 December 2005 and subsequently a wholly foreign-owned enterprise on 28 August 2006. It is a direct wholly-owned subsidiary of our Company.
"NGID"	南京高速齒輪產業發展有限公司 (Nanjing High Speed Gear Industrial Development Co., Ltd.), which is the successor entity to 南京高速齒輪箱廠 (Nanjing High Speed Gear Factory) and is the former controlling shareholder of NGC.
"Ningjiang"	南京寧江齒輪箱製造有限公司 (Nanjing Ningjiang Gear Box Manufacturing Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect wholly-owned subsidiary of our Company.
"Ningkai"	南京寧凱機械有限公司 (Nanjing Ningkai Mechanical Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect non-wholly owned subsidiary of our Company.
"Ningtai"	南京寧泰物業管理有限公司 (Nanjing Ningtai Property Management Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect non-wholly owned subsidiary of our Company.

"Offer Price"	the final offer price per Offer Share (exclusive of brokerage fee of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%) of not more than HK$7.08 and expected to be not less than HK$5.38, at which the Hong Kong Offer Shares are to be subscribed pursuant to the Hong Kong Public Offering and International Placing Shares are to be offered pursuant to the International Placing, to be agreed upon by the Global Co-ordinator (on behalf of the Underwriters) and us at or before the Price Determination Date.
"Offer Share(s)"	the Hong Kong Offer Shares and the International Placing Shares, collectively, and where relevant, together with any additional Shares issued pursuant to the exercise of the Over-allotment Option.
"Over-allotment Option"	the option granted by us to the International Underwriters exercisable by the Global Co-ordinator on behalf of the International Underwriters subject to the terms and conditions of the International Underwriting Agreement pursuant to which we may be required to issue up to an additional aggregate of 45,000,000 Shares (representing 15% of the Shares initially being offered under the Global Offering) to cover over-allocations in the International Placing, details of which are described in the section headed "Structure of the Global Offering — Over-allotment and stabilisation".
"PBOC"	the People's Bank of China.
"PRC Government"	the government of the PRC, including all governmental subdivisions (including provincial, municipal and other regional or local government entities).
"PRC Legal Advisers"	Jingtian & Gongcheng, the legal advisers to our Company as to PRC laws.
"PRC GAAP"	the generally accepted accounting principles in the PRC.
"Pre-emptive Rights Agreement"	the agreement dated 8 June 2007 entered into among members of the Controlling Group as more particularly described in the section headed "Substantial Shareholders — Relationship with our controlling shareholders".
"Pre-IPO Investors"	DPF, Templeton and VPL Funds/Sub-Funds.
"Price Determination Agreement"	the agreement to be entered into by the Global Co-ordinator (on behalf of the Underwriters) and us on the Price Determination Date to record and fix the Offer Price.

"Price Determination Date"	the date, expected to be on or about 26 June 2007 (Hong Kong time) on which the Offer Price is determined, or such later time as the Global Co-ordinator (on behalf of the Underwriters) and us may agree.
"Prospectus"	this prospectus being issued in connection with the Hong Kong Public Offering.
"QIBs"	qualified institutional buyers within the meaning of Rule 144A.
"Qualifying IPO"	shall have the meaning as defined in the GE Subscription Agreement, namely an initial public offering undertaken by our Company or a special purpose vehicle incorporated as a listing vehicle of our Group involving a listing of all of the equity shares of our Company or the listing vehicle on the main board of the Stock Exchange or another internationally recognised stock exchange acceptable to GE Capital, our Company and the shareholders of our Company from time to time.
"Regulation S"	Regulation S under the U.S. Securities Act.
"Reorganisation"	the reorganisation arrangements undergone by us in preparation for the Listing as described in the section headed "Business — Reorganisation" and "Corporate Reorganisation" in Appendix VI to this prospectus.
"Repurchase Mandate"	the general unconditional mandate to repurchase Shares given to the Directors by the Shareholders, further details of which are contained in the section headed "Written resolutions of the Shareholders passed on 8 June 2007" in Appendix VI to this prospectus.
"RMB" and "Renminbi"	the lawful currency of the PRC.
"Rule 144A"	Rule 144A under the U.S. Securities Act.
"SAFE"	the State Administration of Foreign Exchange of the PRC, which is the PRC government agency responsible for matters relating to foreign exchange administration.
"SAFE Notice"	Notice No. 75 of SAFE issued in October 2005 regarding relevant issues on foreign exchange control relating to corporate financing and inbound investment by domestic individuals through their offshore special purpose companies.
"SFC"	the Securities and Futures Commission of Hong Kong.

"SFO"	the Securities and Futures Ordinance, (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time.
"Shareholder(s)"	holders of the Shares.
"Shareholders' Agreement"	the shareholders' agreement dated 8 February 2007 and entered into amongst our Company and the then existing Shareholders.
"Share Option Scheme"	the share option scheme conditionally approved and adopted by our Company on 8 June 2007, the principal terms of which are summarised in the section headed "Share Option Scheme" in Appendix VI to this prospectus.
"Shares" or "our Shares"	ordinary shares in the share capital of our Company, with a nominal value of US$0.01 each.
"Shenyang AIC"	瀋陽市工商行政管理局 (Shenyang Administration for Industry and Commence).
"Shenyang Sales Co."	南京高精齒輪(瀋陽)銷售有限公司 (Nanjing High Speed Gear (Shenyang) Sales Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect wholly-owned subsidiary of our Company.
"SOF(I)"	Seabright China Special Opportunities (I) Limited (光大海基中國特別機會基金), a Shareholder who will hold approximately 3.42% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) and a close-ended investment company incorporated under the laws of the BVI, and to the knowledge of the Directors, is independent of, and not connected with, the Management Shareholders, the chief executive, our Directors and the substantial shareholders of our Company or any of its subsidiaries or any of their respective associates.
"Stock Borrowing Agreement"	the stock borrowing agreement to be entered into between Fortune Apex and Morgan Stanley & Co. International plc.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited.

"Subscription Agreement"	the subscription and investment agreement dated 23 December 2005 entered into between our Company, the BVI Shareholders, DPF, Templeton and VPL Funds/Sub-Funds relating to the Convertible Bonds as amended by a supplemental agreement dated 26 January 2006 and a second supplemental agreement dated 31 March 2006 between the same parties.
"subsidiaries"	has the meaning ascribed thereto in section 2 of the Hong Kong Companies Ordinance.
"substantial shareholders"	shall have the meaning as defined in the Listing Rules.
"Suzhou VC"	江蘇省蘇高新風險投資股份有限公司 (Jiangsu Suzhou New & Hi-tech Venture Capital Co., Ltd.), a joint stock company incorporated in the PRC and a former shareholder of NGC.
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers.
"Templeton"	Templeton Strategic Emerging Markets Fund II, LDC, an exempted limited duration company incorporated under the laws of the Cayman Islands who will hold approximately 4.53% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Track Record Period"	comprises the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006.
"Underwriters"	the Hong Kong Underwriters and the International Underwriters.
"Underwriting Agreements"	the Hong Kong Underwriting Agreement and the International Underwriting Agreement.
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction.
"U.S. Securities Act"	the United States Securities Act of 1933, as amended, supplemented or otherwise modified from time to time.
"US$" or "US dollars"	United States dollars, the lawful currency for the time being of the United States.
"Union Strong"	南京聯強冶金集團有限公司 (Nanjing Union Strong Metallurgical Group Co., Ltd.), a company incorporated in the PRC as a limited liability company and a former shareholder of NGC.

"VPL Funds/Sub-Funds"	nine funds and/or sub-funds under the management of Value Partners Limited which in aggregate held approximately 11.03% of our issued share capital during the period between 22 December 2006 and 12 January 2007.
"Wenjing"	江蘇文京科技有限公司 (Jiangsu Wenjing Scientific & Technical Co., Ltd.), a company incorporated in the PRC as a limited liability company and a former shareholder of NGC.
"Wiaearn"	Wiaearn Holdings Limited, a company incorporated in the BVI with limited liability owned and controlled by Mr. Pan Jinhong, being a Shareholder who will hold approximately 5.02% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Wind Gear Transmission Equipment"	our series of mechanical transmission equipment which are mainly used for wind turbine generators.
"Wise-Win"	Wise-Win Technology Limited, a company incorporated under the laws of England and Wales with limited liability, which is owned and controlled by Jiangsu VC, and who will hold approximately 3.46% of our issued share capital upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).
"Yinxiang"	江蘇銀翔房地產開發有限公司 (Jiangsu Yinxiang Real Estate Development Co., Ltd.), a company incorporated in the PRC as a limited liability company and a former shareholder of NGC.
"Yongte"	南京永特齒輪箱製造有限公司 (Nanjing Yongte Gear Box Manufacturing Co., Ltd.), a company incorporated in the PRC as a limited liability company and an indirect wholly-owned subsidiary of our Company.
"ZF"	ZF Friedrichshafen AG, a corporation incorporated under the laws of Germany as a close corporation, which provides components and systems to the automotive, commercial vehicle, off-highway/construction, marine, rail and aviation industries.
"ZF China"	ZF (China) Investment Co., Ltd., a member of the ZF group, and our joint venture partner.
"ZF Nanjing"	南京采埃孚船用傳動系統有限公司 (ZF Nanjing Marine Propulsion Co., Ltd.), an associated company of our Company and our joint venture entity established with ZF China.
"%"	per cent.

Unless otherwise specified, translations of (i) HK$ into RMB and RMB into HK$; and (ii) HK$ into US$ and US$ into HK$ in this prospectus are based on the rates set out below respectively (for the purpose of illustration only):

HK$1.00 : RMB0.98
HK$7.80 : US$1.00

Any discrepancies in any table or chart between the total shown and the sum of amounts listed are due to rounding.

If there is any discrepancy or inconsistency between the Chinese names of the PRC entities in this prospectus and their English translations, the Chinese version shall prevail.

No representation is made that any amounts in RMB and HK$ and/or US$ and HK$ can be or could have been converted at the relevant dates at the above rates or any other rates at all.

* *For identification purpose only*

"bearings"	mechanical parts that are connectors that permit the connected members to rotate or to move in a straight line relative to one another.
"boring"	a process for the formation of a cylindrical hole in a solid material.
"CAD"	computer-aided design.
"cast iron"	a generic term describing a family of iron alloys containing 1.8 - 4.5% carbon. Cast iron is usually made into specified shapes, called castings, for direct use or for processing by machining, thermal treating or assembly.
"coupling"	a device used to connect two shafts together at their ends for the purpose of transmitting force.
"forged steel"	steel which has undergone the process of shaping under heat and which strength is increased by hammering or rolling.
"gears"	mechanical parts with cut teeth designed to mesh with teeth on another part so as to transmit or receive force and motion.
"helical gear"	gear wheels running on parallel axes, with teeth twisted oblique to the gear axis.
"hobbing"	a process involving the cutting of evenly spaced forms, such as gear teeth, on the periphery of cylindrical workpieces.
"hp"	horsepower, a unit for measuring power.
"mechanical transmission equipment"	a system of gears and/or the hydraulic system (called variously "hydro dynamic", "fluid" or "automatic" transmission) that transmits power from a prime mover, such as an engine or electric motor, to some form of useful output device, normally rotary in form.
"milling"	a process involving the grinding, cutting, shaping or finishing metal materials.
"KW"	kilowatts, a unit for measuring power.
"MW"	megawatts, a unit for measuring power.

You should carefully consider, in addition to other information contained in this prospectus, the risks described below before making an investment. You should pay particular attention to the fact that we are a company incorporated under the laws of the Cayman Islands and our business is located almost exclusively in the PRC. There are risks associated with investing in our Shares not typical of investments in the capital stock of companies incorporated and/or engaging in business in Hong Kong or the United States. Any of the risks and uncertainties described below could have a material adverse effect on our business, results of operations, financial condition or the trading price of our Shares, and could cause you to lose all or part of your investment.

Investors should consider carefully all of the information set out in this prospectus and, in particular, should evaluate the following risks in connection with an investment in the Offer Shares. We believe that there are certain risks involved in our operations. Many of these risks are beyond our control and can be categorised into: (i) risks related to our business; (ii) risks related to the PRC; and (iii) risks related to the Global Offering.

RISKS RELATED TO OUR BUSINESS

We face significant competition in each of the markets in which we operate, which could materially and adversely affect us.

We face intense and diversified competition in the domestic and international markets in which we operate. Domestically, our competitors mainly consist of a few large scale mechanical transmission equipment manufacturers such as Chongqing Gearbox Co. Ltd., (重慶齒輪箱有限責任公司) and Hangzhou Advance Gearbox Co., Ltd., (杭州前進齒輪箱集團有限公司) which produce mechanical transmission equipment that competes with some of our products. In respect of our high-end and high-precision series of products, we also face competition from international manufacturers, such as SEW-EURODRIVE Group, Flender Holding GmbH and Hansen Transmission BV., which have worldwide offices and sell products to customers internationally and in China. Larger domestic and overseas competitors may have competitive advantages over us in certain areas such as access to capital, technology, product quality, economies of scale and brand recognition. As a result of these advantages, some of our competitors may also be better positioned than we are to develop superior product features and technological innovations and to exploit and adapt to market trends.

Our market position depends on our ability to anticipate and respond promptly to changes in economic and market conditions and evolving industry trends, as well as the following factors: introduction of new or superior products and services or more advanced technologies, adoption of more flexible pricing strategies by our competitors and changes in customers' needs and preferences. We cannot assure you that our current or potential competitors will not produce similar products or products of a better quality at the same or lower prices than the prices at which our products are sold. Our competitors may also react more quickly to new or emerging technologies or changes in customer preferences. In addition, we may face greater than expected downward pricing pressure as a result of price competition by competitors seeking to stimulate demand in order to maintain or increase market share. Such competition could materially and adversely affect our results of operations and business prospects. Any adverse changes in our competitive environment could cause a reduction in the sales quantity or the sales price of our products, which would have a material adverse effect on our business and results of operations.

We may experience shortages in the supply of raw materials which could materially affect our production process and planned expansion.

We manufacture our products from a variety of raw materials such as large cast iron and forged steel parts as well as bearings. Due to the recent high level of activity in the international heavy industries which include energy, iron and steel and machinery, there is significant international demand for supplies of these materials. Generally, we do not enter into contracts with suppliers which would guarantee minimum available quantities. As such, there is no assurance that we will be able to purchase sufficient quantities of raw materials and/or secure a stable supply of raw materials. Our inability to obtain an adequate supply of raw materials on reasonable terms in a timely manner could have a negative impact on our operations. In addition, our planned expansion will increase our demand for raw materials substantially. There is no assurance that we will be able to obtain an adequate supply of raw materials to meet our expanded capacity fully or at all. Failure to secure sufficient quantities of raw materials for our existing operations and our planned business expansion, or at all, or at reasonable prices, would have a material adverse impact on our business operations and financial performance.

We are subject to price fluctuations of raw materials which we may be unable to pass on to our customers.

We are dependent on third-party suppliers for our raw materials, which principally consist of forged steel, bearings, cast iron and steel plates. The prices of our principal raw materials are subject to price fluctuations resulting from the volatility of supply and demand in the world market and in the PRC market. We cannot assure you that we will be able to fully pass on any price increases in raw materials to our customers. To the extent that we cannot fully pass on the price increases in raw materials to our customers, or at all, our business operations and financial performance could be materially and adversely affected.

We rely on third parties in respect of certain production processes.

We rely on third parties to process certain raw materials, primarily under the following four circumstances: (i) when certain simple, labour-intensive manufacturing processes can be done less expensively when outsourced; (ii) when we do not have the production capacity to manufacture; (iii) when certain products require specialised processing which we are unable to carry out because we do not have the necessary equipment; and (iv) when certain specialised treatment is required due to environmental issues which our Group is unable to carry out because we do not have the necessary equipment or expertise. Costs incurred from outsourced processing were 26.5%, 25.7% and 20.4% respectively of our total cost of goods sold for the 2004 Period and the two years ended 31 December 2005 and 2006. We cannot assure you that we will be able to secure such outsourcing services sufficient for our production needs, or at all. Further, the costs for outsourced processing are subject to price fluctuations as a result of the volatility of supply and demand in the world market and in the PRC market. If we are unable to secure the outsourcing services sufficient for our production needs, or at all, or to the extent that we cannot fully pass on the cost increases in outsourced processing to our customers, or at all, our business operations and financial performance could be materially and adversely affected.

Our products are subject to replacement risk and our research, design and development activities may not yield the benefits that we expect.

We manufacture our products primarily using technologies that we develop in-house. Research, design and development activities require considerable human resources and capital investment. Based on our current business plan, we intend to spend RMB300 million in aggregate on research, design and development activities for 2007, 2008 and 2009. Our research, design and development efforts may not be successful or yield the anticipated level of economic benefit. Even if our research, design and development efforts are successful, we may be unable to apply the new technology to products that are accepted by the market or apply it in a timely manner to take advantage of the opportunities presented in the market. Furthermore, the market demand expected at the development stage may not materialise. The level of economic benefit that can be derived from newly developed technologies or products may be affected by how quickly our competitors can replicate the technology or product. In addition, the technologies and products we develop may be made obsolete by new products, newer models of existing products or new technologies developed by competitors. For example, the successful commercialisation of the technology for the production of gearless wind turbines in the future may threaten the commercial viability of our products. If our technologies or products are replicated, replaced or made redundant in a manner which we do not anticipate, our revenues may not offset the costs we incur in developing new technologies, which would have a material adverse impact on our business operations and financial performance. In addition, if we are unable to anticipate trends in technological or product developments and rapidly develop new and innovative technologies or products that our customers require, we may not be able to produce sufficiently advanced products at competitive prices, resulting in decreased sales of our products.

The construction and installation of our new production facilities may not be completed within the time frame or at the cost levels originally anticipated and, as a result, we may not be able to implement our future plans for expansion.

We intend to increase our sales volume, particularly with respect to our Wind Gear Transmission Equipment and Marine Gear Transmission Equipment, which will require us to construct new facilities and purchase additional machinery. We are expanding a number of manufacturing facilities for the production of our Wind Gear Transmission Equipment and Marine Gear Transmission Equipment and we anticipate that more facilities will be constructed in order to implement our future plans for expansion. The schedule for the construction of these production facilities could be materially and adversely affected by technical difficulties, human or other resource constraints, or for other reasons. Moreover, the cost to build these projects may exceed the budget levels we anticipate. If our construction schedules or the delivery of our machinery and equipment experience delays, if the start-up period for any of the production facilities turns out to be substantially longer than we expected or if we are unable to recruit a sufficient number of skilled or experienced personnel, we may be unable to implement our expansion plans within the timeframe originally anticipated. If the costs involved in the construction of any of the new production facilities substantially exceed our original plans and we are unable to obtain additional financing in time or on terms that are reasonable to us or if the capacity of any of the new production facilities fails to reach the originally designed levels, we may not be able to achieve the intended economic benefit from the new production facilities, such as economies of scale, in full or at all, which may materially and adversely affect us.

We need substantial capital for investing in, constructing or acquiring new production facilities and failure to obtain capital on reasonable commercial terms will increase our financing costs and cause delay in our expansion plans.

Our growth strategy includes investing in, constructing or acquiring new production facilities on commercially reasonable financing terms. Our ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- credit availability from banks or other lenders;
- investor confidence in us; and
- the continued performance of our production facilities.

Although we have historically been able to obtain financing on terms acceptable to us, there can be no assurance that financing for investing in, constructing or acquiring new production facilities and future acquisitions will be available on terms acceptable to us or at all, which could increase our financing costs and cause delay in our expansion plans.

Our results of operations depend on the conditions of the industries in which our customers operate, especially the wind power industry.

Our products are essentially components of our customers' products. Our plan to increase our production capacity, especially for mechanical transmission equipment used in certain industries such as wind power, marine and light rail and high-speed trains, is partly based on our anticipation of the growth in demand for our customers' products. Accordingly, if the growth in demand for our customers' products does not match our expectations, demand for our products may be lower than anticipated. For instance, revenue generated from our Gear Transmission Equipment for Construction Materials declined throughout the 2004 Period and the two years ended 31 December 2005 and 2006 from 41.5% to 16.5% of our total revenue, in large part due to PRC government policies aimed at slowing down growth in the cement industry, thus dampening demand for our Gear Transmission Equipment for Construction Materials. Revenue from our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills increased from RMB146.1 million for the 2004 Period to RMB289.2 million for the year ended 31 December 2006 as a result of a 132.3% increase in volume sold due to PRC government policies designed to stimulate the upgrading of aging production facilities, thus spurring an increased demand for mechanical transmission equipment for metallurgy purposes. In addition, we expect the proportion of revenue generated from sales of our Wind Gear Transmission Equipment to increase in the future. Any events that have an adverse effect on the demand for wind power generally, such as changes in regulatory incentives or technology, or have an adverse effect on the demand for our customers' products specifically, could materially and adversely affect our results of operations and business prospects.

Our success is dependent upon hiring and retaining qualified personnel and there may be a material adverse impact on us if we are unable to secure qualified personnel for our operations.

Our future performance depends to a significant extent on the continued service of our key management and technical staff, in particular, the executive Directors led by Mr. Hu Yueming, the Chairman of the Board. As is customary in China, we do not maintain insurance for losses caused by business disruptions due to the discontinuation of service of our key management and technical staff. If a significant number of members of senior management or technical staff cease to serve us in the future or fail to perform their duties as expected, or we are unable to recruit and retain a sufficient number of senior management or technical staff, our financial condition and results of operations may be materially and adversely affected.

In addition, we require a significant number of skilled workers to operate our machinery in our production process. Due to the skills involved in operating some of our equipment, it normally takes approximately one year to fully train our workers in order for them to attain the necessary skills to work in the manufacturing process. Competition for skilled manufacturing workers is intense in the PRC. Accordingly, our success depends on our ability to continue to attract, retain and motivate such personnel. We may have to offer better salaries, incentive packages and training opportunities to attract and retain sufficient skilled workers to sustain our operations and our growth which may increase our costs and reduce our profit margins. We cannot assure you that we will continue to be able to attract and retain a sufficient number of skilled workers for our existing and planned business operations. To the extent that we cannot attract and retain a sufficient number of skilled workers for our existing and planned business operations, or at all, our business operations and financial performance may be materially and adversely affected.

We may not be able to adequately protect our intellectual property rights and industrial know-how, which could weaken our competitive position and affect our operations.

Our success is attributable to the technologies, know-how and other intellectual property rights that we have developed. We have certain patents and trademarks registered in the PRC, details of which are set out in Appendix VI to this prospectus. Infringement of intellectual property rights by other enterprises, by way of counterfeiting products, occurs frequently in the PRC. Although we rely upon a combination of confidentiality policies, nondisclosure and other contractual arrangements, and patent and trademark laws to protect our intellectual property rights, there can be no assurance that the steps we take in this regard are adequate to prevent or deter infringement or other misappropriation of our intellectual property rights. We may not be able to detect unauthorised use or take appropriate and timely steps to enforce our intellectual property rights. Any significant infringement of our confidential information and the proprietary technologies and processes used in our business could weaken our competitive position and have an adverse effect on our operations.

In addition, we may need to defend our intellectual property rights in legal proceedings. If we do not succeed in these proceedings, we could lose our proprietary rights over our intellectual property rights and we may be required to pay expensive legal costs. Also, defending claims may be costly and would divert the efforts of our management and technical personnel.

Our future performance and reputation are dependent on our ability to keep developing new products.

Our future growth depends on our ability to develop new and improved products in line with the technological advancements that meet the evolving requirements of our customers and our ability to bring these products to market in a timely manner. New products, or refinements and improvements of existing products, may have technical failures which could cause delays in their introduction. Such products may have higher production costs than we originally expect and they may not be accepted by our customers. Any failure of these products could have a material adverse effect on our financial performance and our reputation.

In addition, if any of our products or refinements were to fail, it is possible that our customers might not consider us again in seeking to develop products in the future. Because much of our product development results from producing customised mechanical transmission equipment, we are dependent on orders from customers to develop new products. If we do not receive such orders in the future, our business operations and financial performance would be adversely affected.

We have a limited operating history in manufacturing and selling mechanical transmission equipment for the wind turbine industry.

The contribution to our total revenue from the sales of our Wind Gear Transmission Equipment increased from 0.1% for the 2004 Period to 26.8% for the year ended 31 December 2006. In addition, substantially all of the sales of our Wind Gear Transmission Equipment were generated by three customers during the Track Record Period. Since the wind power industry is a relative new market and because of our limited operating history in manufacturing and selling mechanical transmission equipment for the wind turbine industry, long-term trends and developments in this aspect of our business are difficult to identify and the financial information contained in this prospectus may not be indicative of our financial condition or results of operations in the future, including the results of operations of our Wind Gear Transmission Equipment.

Our sales of the Wind Gear Transmission Equipment are dependent on a limited number of customers including GE, the loss of whom may have a material adverse impact on our business.

Compared with our traditional mechanical transmission equipment such as the High-speed Series Gear Transmission Equipment, General Purpose Gear Transmission Equipment and Gear Transmission Equipment for Construction Materials, our Wind Gear Transmission Equipment series is a relatively new series of products which we began to supply in early 2004. Whilst the sales of our Wind Gear Transmission Equipment were 0.1% and 2.8% of our total revenue for the 2004 Period and the year ended 31 December 2005, respectively, the sales of our Wind Gear Transmission Equipment increased significantly in 2006 and accounted for 26.8% of our total revenue in 2006. We are exposed to the risk of customers' concentration in respect of our sale of Wind Gear Transmission Equipment since we supply our Wind Gear Transmission Equipment to a limited number of domestic and international manufacturers of wind turbines including Goldwind, GE and Dongfang. Sales of our Wind Gear Transmission Equipment to Goldwind and Dongfang, being two of our top five customers in 2006, together constituted 84.6% of the total sales revenue of our Wind Gear Transmission Equipment in 2006. Loss of any of these customers or a substantial decline in orders from such customers could have a material adverse impact on the sales of our Wind Gear Transmission Equipment and the benefits we expect to derive from our planned expansion.

In May 2006, we entered into a supply agreement with GE Energy for the supply of Wind Gear Transmission Equipment for its wind turbines. In August 2006, we entered into a joint development agreement with GE in respect of the joint development of mechanical transmission equipment for the 1.5 MW wind turbines of GE. We expect that a significant portion of our future revenue will be derived from sales revenue of our Wind Gear Transmission Equipment from GE. Pursuant to the joint development agreement, we are obliged to reserve our production capacity to produce the specifically developed mechanical transmission equipment up to the forecasted purchases by GE. If GE is unable to purchase the quantity of mechanical transmission equipment that it forecasts to purchase from us or if the supply agreement and/or the joint development agreement is terminated, we would have excess capacity and it would take time for us to convert the excess capacity into capacity capable of producing other products for our other customers, which could have a material adverse impact on our business operations and financial performance.

If our mechanical transmission equipment experiences any mechanical failure, our reputation may be harmed and we may have to replace such products and be subject to claims for consequential damages for any losses due to the failure of our mechanical transmission equipment.

Our products are used in a variety of industries and are used as essential components of the products of our customers and end-users. Any mechanical failure of our products could materially and adversely affect the entire production line and could result in significant consequential losses to our customers or end-users. Our customers often require us to give a minimum one-year quality guarantee for our products during which we are responsible for repairing and correcting any quality defects either at no charge or at cost. In certain cases, we may agree to a quality guarantee exceeding one year. During the Track Record Period, some of our customers encountered mechanical failures in our products during the guarantee period mainly due to normal wear and tear. Such failures have been rectified by us to the extent that we are responsible under the quality guarantee and no claims or lawsuits have been filed by customers in respect thereof during the Track Record Period. However, we cannot assure you that we will be able to correct the quality problems of our products in a timely or efficient manner. If we are unable to correct all the quality defects within the guarantee period or at all, our customers may file claims or lawsuits against us for losses resulting from the failure of our products. Such claims and lawsuits could also have a material, direct or indirect, adverse effect on our reputation as well as business operations and financial performance.

We may experience difficulty in collecting account receivables from our customers.

We typically require our customers to pay a deposit of 25% to 30% of the purchase price upon signing of the purchase order, another 25%-30% when the products purchased are being manufactured, and the remaining balance, subject to an amount of 5%-10% of the purchase price retained by the customer as described below, to be paid upon delivery to customers, or upon installation and testing of the products by the customers. Our customers usually require a period of time to settle the installments which enable them to assemble the machinery and the end-user to install and test the final product. Our contracts usually provide that 5% - 10% of the purchase price shall be treated as retention monies to secure our performance of warranty obligations and shall be paid upon the expiry of the warranty period (which is usually 12 months) or 18 months after the delivery of our products to our customers. Our mechanical transmission equipment, however, is only a component of our customers' products. Accordingly, our customers are unable to test our Group's mechanical transmission equipment until they receive all of the other components they need to produce (and thus test) their products. We believe some of our customers have experienced delays in receiving these other components, which resulted in delays in their testing of our products and, in turn, delays in their payments to us. The proportions of our account receivables which were outstanding for more than one year were 13.3%, 7.3% and 3.2% for the 2004 Period and the two years ended 31 December 2006, respectively. Allowance against trade receivables to the extent amounts are considered to be uncollectible or unlikely to be collectible within a reasonable period of time vary depending on the credit terms granted to the relevant customers, the creditworthiness of the relevant customers and the past payment histories of the relevant customers. We continue to attempt to collect account receivables from our customers even after the credit period and our staff will follow up with these customers and request payment, a process which inevitably takes up time. We will only deem trade receivables uncollectible after careful consideration and after having attempted to collect such trade receivables from our customers. Trade receivables aged over three years are generally deemed to be uncollectible or unlikely to be collectible. As at 25 February 2004, 31 December 2004, 2005 and 2006, our accumulated impairment for doubtful debts amounted to RMB11.4 million, RMB15.2 million, RMB23.2 million and RMB28.1 million, representing 6.5%, 8.6%, 5.6% and 5.3% of our trade and other receivables, respectively. For the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, the amount of impairment loss on trade and other receivables actually made amounted to RMB22,000, RMB5.6 million, RMB6.6 million and RMB5.0 million, respectively. We cannot assure you that our customers will meet their payment obligations on time or in full or that the level of bad debts will not increase. Any inability on the part of our customers to settle amounts on time may have a material adverse effect on us. Further details of our account receivables and their aging analysis are set out in the section headed “Financial Information” in this prospectus.

Our insurance policies do not cover all operating risks.

While we maintain insurance policies covering losses, including comprehensive insurance over our properties and equipment, as is a common practice in the mechanical transmission equipment industry in China, we do not carry product liability insurance for our products. With respect to losses which are covered by our policies, it may be difficult and may take time to recover such losses from insurers. In addition, we may not be able to recover the full amount from the insurer. There can be no assurance that our policies would be sufficient to cover all potential losses, regardless of the cause, or whether we can recover for such losses.

We are reliant on the PRC market and we may be unable to adjust our resources to other markets in the event of an economic downturn in the PRC.

During the 2004 Period and the two years ended 31 December 2005 and 2006, 96.1%, 91.7% and 88.3% of our revenue, respectively, was derived directly from sales to customers in the PRC. While we believe our sales to overseas customers will increase in the future, we anticipate that the sales to customers based in the PRC will continue to represent a significant proportion of our revenue. Any adverse change in the economic conditions in the PRC may directly or indirectly affect the demand for our products.

Power shortages could adversely affect our businesses.

We consume a substantial amount of electric power at our production facilities, all of which are located in China. Our operations are vulnerable to power shortages that generally affect enterprises located in China and manufacturers in China have in recent years experienced power shortages. In particular, Jiangsu, the province in which a large part of our production facilities are located, has been subject to occasional power shortages. During 2005, due to power shortages in Jiangsu Province, we were forced to rely on two of our own power generators in order to conduct our routine business operations. We cannot assure you that power shortages will not affect us in the future. In addition, we do not have any insurance covering for business interruptions, including loss of profits from interruptions resulting from power outage. Any losses that may occur as a result of these kinds of events could adversely affect our manufacturing operations and our results of operations.

The Controlling Group has the ability to exercise control over us, which allows it to influence our business in ways that may not be in the interests of other Shareholders.

The Controlling Group comprises the Management Shareholders, acting through Fortune Apex, Mr. Pan Jinhong, acting through Wiaearn, and Mr. Liu Xuezhong and his wife Ms. Li Yuelan, acting through Luckever. Upon completion of the Global Offering, the Controlling Group will hold approximately 45.60% of our issued share capital (assuming that the Over-allotment Option is not exercised) and continue to be a group of controlling shareholders immediately upon Listing. Accordingly, subject to the Articles of Association and applicable laws and regulations, the Controlling Group will, through its voting rights as a group of controlling shareholders, be able to influence our major policy decisions, including our overall strategic and investment decisions, dividend plans, issuances of securities and adjustments to our capital structure and other actions that require the approval of our Shareholders. As a result, the Controlling Group will have the ability to exert significant influence over our actions and may have the ability to require us to effect corporate transactions irrespective of the desires of our other Shareholders.

The interests of the Controlling Group may not always coincide with our or your best interests. If the interests of the Controlling Group conflict with the interest of our other Shareholders, or if the Controlling Group chooses to cause our business to pursue strategic objectives that conflict with the interests of our other Shareholders, those other Shareholders, including you, may be disadvantaged as a result.

We do not possess valid titles to certain properties that we own and we may be required to relocate our operations from those properties without proper titles or permits.

For some of the properties that we own, we have not yet obtained title certificates that allow us to freely use or transfer the properties. As at the Latest Practicable Date, we did not possess long-term title certificates to five parcels of land with a total site area of approximately 52,440.57 sq. m. and five buildings with a total gross floor area of approximately 8,788 sq. m., representing, respectively, approximately 13.88% of the total site area and approximately 7.92% of the total gross floor area of the Group. Out of the five parcels of land without valid title certificates, two parcels of land with a total site area of approximately 18,129.30 sq. m (representing approximately 4.80% of the total site area of the Group) were used by the Group in its production process and the remaining three parcels of land were not used in the Group's production process as at the Latest Practicable Date. In addition, we did not possess construction permits and planning permits in respect of five construction projects as at the Latest Practicable Date.

We are in the course of applying for the relevant title certificates and construction and planning permits for the properties without proper title or permits. However, we cannot predict how our rights as owner of these properties and our operations and construction carried out on or from these properties may be adversely affected as a result of the absence of vested legal title or construction and planning permits in these properties. We may be required to relocate our operations from those buildings and parcels of land without valid title certificates and such relocation may adversely affect our business operations and financial performance.

As a result of the use of the properties without valid title certificates and the construction projects without proper construction permits and planning permits, the relevant governmental authorities may impose penalties on the Group which may include the imposition of work suspension orders, demolition orders and/ or fines. According to the PRC Legal Advisers, the range of fines for the lack of title land use certificates and building certificates is not specified under the PRC laws and regulations. Based on our discussion with the relevant local PRC authorities and the relevant PRC laws and regulations as advised by the PRC Legal Advisers, we estimated that the fine for our lack of construction permits and planning permits, if any, would be in the region from approximately RMB252,000 to RMB538,000. We are currently unable to precisely quantify the adverse effect on our operational and financial performance in the event that the PRC authorities decide to impose a work suspension orders, demolition orders and/ or fines on us as a result of our failure to obtain valid title certificates or construction permits and planning permits in the future. We cannot assure you that our existing business operations and business expansions currently contemplated will not be materially and adversely affected in the event that any such penalties are imposed.

For details, please refer to the section headed "Business — Facilities" of this prospectus.

Any decline in the ability of our operating subsidiaries and joint ventures to pay dividends to us would adversely affect our cash flow.

We are a holding company and conduct substantially all our operations through our operating subsidiaries and joint ventures. Most of our assets are held by, and substantially all of our earnings and cash flows are attributable to, our operating subsidiaries and joint ventures. If the earnings from our operating subsidiaries and joint ventures were to decline, our cash flow would be adversely affected. The ability of our operating subsidiaries and joint ventures to pay dividends depends on business considerations including their operating results and cash flows and regulatory restrictions including their articles of association and applicable provisions of the PRC Company Law. In particular, under PRC law, our operating subsidiaries and joint ventures may only pay dividends after 10% of their net profit has been set aside as a statutory common reserve fund (until such reserve fund is equal to 50% of the relevant registered capital). In addition, distributions by our subsidiaries and joint ventures to us other than dividends may be subject to governmental approval, approval by other shareholders or joint venture partners and taxation. These restrictions could reduce the amount of distributions that we receive from our operating subsidiaries and joint ventures, which would restrict our ability to fund our operations on a group basis and generate income to pay dividends. Any future declaration of dividends may or may not be consistent with our historical declarations of dividends. We cannot assure you that our operating subsidiaries and joint ventures will generate sufficient earnings and cash flows to pay dividends or otherwise distribute sufficient funds to enable us to meet our obligations or declare dividends.

Our business operations may be materially and adversely affected by our net current liability position.

We had net current liabilities of RMB126.5 million, RMB296.3 million, and RMB135.1 million as at December 31, 2004, 2005 and 2006, respectively. We recorded net current liabilities of RMB126.5 million as at 30 April 2007, being the latest practicable date for determining our indebtedness. The majority of our net current liabilities was due to our trade and other payables and short-term banking facilities. We cannot assure you that we will be able to record net current assets in the future and our business operations may be materially and adversely affected by our net current liability position. As at the Latest Practicable Date, we had not experienced any liquidity problem in settling our payables in the ordinary course of business when they fell due. However, there can be no assurance that we will always be able to raise the necessary funding to finance our current liabilities and our capital commitments and in such circumstances, our business, financial position and prospects may be materially and adversely affected.

Our results of operations are subject to cyclical fluctuations.

Our sales are subject to cyclical fluctuations during the year. Generally, our sales are higher in the last two quarters of the year than in the first two quarters of the year, but they may vary considerably from time to time as a result of changes in customer demand. As such, any unpredicted and unusual change in customer demand could adversely affect our results of operations.

As a result of the cyclicality of our business, our results of operations may fluctuate from quarter to quarter. An analysis of our interim financial performance may not be indicative of our full-year results due to the cyclicality of our sales. We believe the cyclical fluctuations in our results of operations will continue in the future.

We may experience difficulties in expanding in overseas markets.

We expect sales to overseas customers to grow significantly in the near future as we increase sales of our Wind Gear Transmission Equipment and Marine Gear Transmission Equipment. Some of our products are new to these overseas markets and we face risks in expanding our business overseas. The risks include differences in legal and regulatory requirements, patent protection, potentially adverse tax consequences, fluctuations in currency exchange rates, differences in legal burdens in complying with foreign laws and regulations and changes in political and economic conditions. There is no assurance that we will be able to gain a foothold in these various markets overseas and the deployment of human and financial resources in pursuit of such expansion plans may have a material and adverse impact on us.

RISKS RELATED TO THE PRC

Changes in PRC Government regulations and policies in relation to the industries in which we or our customers operate may adversely affect our business operations.

The PRC is a country that experiences constant changes in government regulations and policies. Our products can be applied across various industries, and each industry may experience different changes in government policies and regulations at any one time. We cannot assure you that there will not be any unfavourable changes in the PRC Government policy that affect the industries in which we or our customers operate, which could in turn adversely affect the demand for our products.

Political and economic policies of the PRC Government could affect our business, results of operations and financial condition.

Substantially all of our business assets and operations are located in the PRC. As a result, our business, results of operations and financial condition are subject to the political, economic, legal and social conditions, laws, regulations and policies in the PRC. The economy of the PRC differs from the economies of most developed countries in such respects as structure, level of government involvement, level of development, growth rate, level and control of capital reinvestment, allocation of resources, rate of inflation and control of foreign exchange.

Before its adoption of reform and open-door policies beginning in 1978, China was primarily a planned economy. Since that time, the PRC Government has been reforming the PRC economic system and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC Government still owns a significant portion of the productive assets in the PRC, economic reform policies since the late 1970s have emphasised autonomy in business management and the importance of market forces, especially where these policies apply to privately owned businesses such as ours. Although we believe these reforms will have a positive effect on our overall and long-term development, we cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business, results of operations or financial condition.

A slow-down of the PRC economy could adversely affect our business and growth prospects.

In response to concerns related to China's high rate of growth in industrial production, bank credit, fixed investment and money supply, the PRC Government has expressed its intention to adopt measures to slow economic growth to a more manageable rate. Among the measures that the PRC Government has taken are restrictions on bank loans to certain sectors, in which some of our customers operate. In addition, in October 2004, the PRC's central bank, PBOC, increased interest rates for the first time since July 1995. PBOC increased interest rates further in April 2006, August 2006, March 2007 and May 2007. These measures and any further increases in interest rates could slow economic growth in China and reduce investment in some of the industries in which some of our customers operate, which could have an adverse effect on our business operations.

The outbreak of any severe communicable disease in the PRC, if uncontrolled, may materially and adversely affect our results of operations.

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, the overall GDP growth of the PRC. As a large proportion of our revenue is currently derived from our PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect our financial condition, results of operations and future growth. In addition, if our employees are affected by severe communicable disease, we may be required to close our facilities or institute other measures to prevent the spread of the disease, which may materially and adversely affect or disrupt our production, resulting in an adverse effect on our results of operations. The spread of any severe communicable disease in the PRC may also affect the operations of our customers and suppliers, which may have an adverse effect on our financial condition and results of operations.

The PRC legal system is not fully developed and there are inherent uncertainties that could limit the legal protections available to our Shareholders.

The PRC legal system is based on written statutes and their interpretations by the Standing Committee of the National People's Congress. Prior court decisions may be cited for reference. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, as well as the limited number of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties.

As an investor holding our Shares, you hold an indirect interest in our operations in China, which are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the internal affairs of these companies. The PRC Company Law and these regulations, in general, and the provisions for the protection of Shareholders' rights and access to information, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. Therefore, our PRC subsidiaries (and indirectly, you) do not enjoy all the shareholder protections that are available in the more developed jurisdictions.

It may be difficult to effect service of process upon us or our Directors or executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.

A majority of our Directors and executive officers reside within the PRC, and substantially all of our assets and substantially all of the assets of those persons are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon us or those persons inside the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with Hong Kong, the United States, the United Kingdom, Japan or most other developed countries. Therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

PRC Government control of currency conversion and future movements in exchange rates may adversely affect our ability to distribute dividends, increase competition from imports, affect the value of our net assets, earnings and dividends in foreign currency terms, or inhibit our ability to import equipment.

The Renminbi currently is not a freely convertible currency. Presently, our operations are primarily in China and we receive almost all of our revenues in Renminbi. Therefore, fluctuations in the Renminbi exchange rate against other currencies currently does not have a material impact on the results of our operations. However, the foreign exchange risk impact, though, will become more significant as we expand the overseas market in the future. Our plans to purchase raw materials as well as equipment from overseas vendors and the fact that we will be required to pay dividends in currency other than Renminbi to our Shareholders will also increase our foreign-currency denominated obligations which, in turn, expose us to greater foreign exchange risk.

As a result, our results of operations are exposed to fluctuations in the Renminbi exchange rate against foreign currencies. The value of the Renminbi may fluctuate due to a number of factors. Since 1994, the conversion of Renminbi into foreign currencies, including the Hong Kong dollar and U.S. dollar, has been based on the rate set by the PBOC and the official exchange rate for the conversion of Renminbi to U.S.

dollars has generally been stable. On 21 July 2005, the revaluation of the Renminbi resulted in an appreciation of the Renminbi against the U.S. dollar and the Hong Kong dollar by approximately 2%, and the Renminbi has appreciated by approximately an additional 6% since that date. As of 21 July 2005, the Renminbi was no longer pegged to the U.S. dollar but to a basket of currencies.

Any future exchange rate volatility relating to Renminbi may give rise to uncertainties in the value of our net assets, earnings and dividends. An appreciation of Renminbi may result in increased competition from foreign competitors; a devaluation of Renminbi may adversely affect the value of our net assets, earnings and dividends in foreign currency terms.

Our PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. The ability of our PRC subsidiaries to pay dividends or make other distributions to us may be restricted by these PRC foreign exchange control restrictions. In addition, under PRC law and upon the Listing on the Stock Exchange, our subsidiaries may only pay dividends out of distributable reserves as determined under PRC GAAP. As a result, our subsidiaries may not have sufficient or any distributable reserves to make dividend distributions to us in the future, including in periods in which their financial statements indicate that operations have been profitable. We cannot assure you that the relevant regulations will not be amended to our disadvantage and that the ability of our PRC subsidiaries to distribute dividends to us will not be adversely affected.

Under the existing foreign exchange regulations in the PRC, we may undertake current account foreign exchange transactions, including payment of dividends, without prior approvals from SAFE by producing commercial documents evidencing such transactions, provided that they are processed through designated banks licensed to engage in foreign currency transactions. However, foreign exchange transactions for capital account purposes, which may include direct overseas investment and various international loans, require the prior approvals of or registration with SAFE. If we are unable to obtain SAFE's consent to convert Renminbi into foreign currencies for such purposes, our capital expenditure plan and, consequently, our results of operations and financial condition could be adversely affected.

If the favourable tax treatment that we currently receive is altered or eliminated, our business may be adversely affected.

We have benefited from favourable tax treatment from the PRC Government. Our subsidiaries, namely NGC and Ningjiang, being foreign invested enterprises, are entitled to exemptions from the PRC enterprise income tax for the first two years they start to make profit and at 50% discount of the then effective tax rate for three subsequent years. Our subsidiary, Nanjing High Speed, being a "Technologically Advanced Enterprise", is entitled to exemptions from the PRC enterprise income tax for the first two years it starts to make profit and are taxed at an income tax rate of 15% afterwards. There can be no assurance that the PRC Government will not revise taxation rules or regulations in the future. If any such changes are not favourable to us, our profitability and financial position may be adversely affected. On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the People's Republic of China (the "New Tax Law") which will take effect on 1 January 2008. From 1 January 2008, the income tax rate is expected to gradually adjust to the standard rate of 25% over a five-year transition period. Foreign investment manufacturing enterprises which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of the full exemption or reduction in income tax rate during the five-year transition period. The New Tax Law also provides that "Technological Advanced Enterprises" will be subject to an income tax rate of 15%. However, the New Tax Law does not provide a definition of "Technologically Advanced Enterprises". We may be required to pay higher enterprise income tax when the implementation guidance of the New Tax Law is issued. As the implementation guidance has not been issued, we are currently unable to determine whether and how we will be affected by the unification of enterprise income tax in the PRC because it is unclear as to how the unification will affect new and high-technology enterprises in the PRC. We cannot assure you that our tax position would not be materially and adversely affected by the New Tax Law and the implementation guidance thereof when they come into effect on 1 January 2008.

RISKS RELATED TO THE GLOBAL OFFERING

There has been no prior public market for our Shares, and an active trading market may not develop after the Global Offering.

Prior to the Global Offering, there was no public market for our Shares. The initial offer price range to the public for our Shares was the result of negotiations among the Underwriters and us, and the Offer Price may differ significantly from the market price for our Shares following the Global Offering. We have applied to list and deal in our Shares on the Stock Exchange. However, a listing on the Stock Exchange does not guarantee that an active trading market for our Shares will develop following the Global Offering or in the future.

The liquidity and market prices of our Shares following the Global Offering may be volatile.

The price and trading volume of our Shares may be highly volatile. Factors such as variations in our revenues, earnings and cash flows, announcements of new investments, strategic alliances and/ or acquisitions, fluctuations in market prices for our products and services or fluctuations in market prices for companies in our industry could cause the market price of our Shares to change substantially. Any such development may result in large and sudden changes in the volume and price at which our Shares will trade. We can give no assurance that these developments will not occur in the future. In addition, shares of other companies listed on the Stock Exchange with significant operations and assets in the PRC have experienced substantial price volatility in the past, and it is possible that our Shares will be subject to changes in price that may not be directly related to our financial or business performance.

Because the Offer Price is higher than the net tangible book value per Share, you will incur immediate dilution.

The Offer Price of our Shares is higher than the net tangible book value per Share issued to our original Shareholders. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma consolidated net tangible book value of HK$1.85 per Share (assuming an Offer Price of HK$6.23, being the mid-point of the stated offer price range of HK$5.38 and HK$7.08 per Share), and our parent company will receive an increase in the net tangible book value per Share of their Shares. If we issue additional Shares in the future, purchasers of our Shares may experience further dilution.

A potential sale of Shares by our existing Shareholders could have an adverse effect on our Share price.

Future sales of a substantial number of our Shares by our existing Shareholders, or the possibility of such sales, could negatively impact the market price of our Shares in Hong Kong and our ability to raise equity capital in the future at a time and price that we deem appropriate.

The Shares held by all our existing Shareholders are subject to a six-month lock-up period beginning on the date on which trading in our Shares commences on the Stock Exchange, details of which are set out in the section headed "Business — Reorganisation — Shareholders' Agreement amongst the existing Shareholders on 8 February 2007". While we are not aware of any intentions of such Shareholders to dispose of their Shares after the completion of the lock-up periods, we are not in a position to give any assurance that they will not dispose of any Shares they own now or in the future.

You are cautioned not to place any undue reliance on whether the Global Co-ordinator will allocate the Additional GE Shares to GE Capital upon GE Capital exercising the Subscription Right when making your own investment decision.

GE Capital is our Shareholder interested in 5% of our total issued share capital immediately prior to completion of the Global Offering. The GE Subscription Agreement provides, among other things, that to the extent permitted by law and applicable stock exchange rules and to the extent that additional Shares that may be subscribed by GE Capital under a Qualifying IPO are counted as part of the public float under the applicable stock exchange rules, our Company is required to use its best efforts to cause the underwriters of the Qualifying IPO to offer to GE Capital the right to purchase at least 5% of the Shares to be issued in the Qualifying IPO at the offer price of the Qualifying IPO ("Subscription Right"). Such Subscription Right provision is also provided in the Shareholders' Agreement. If the Subscription Right is exercised by GE Capital and such Subscription Right is satisfied in full, it is currently expected that 15,000,000 Shares ("Additional GE Shares") will be placed to GE Capital as part of the International Placing. On 15 June 2007, GE Capital has undertaken to the Global Co-ordinator and us that it will exercise the Subscription Right in full to subscribe for the Additional GE Shares at the Offer Price.

However, the Global Co-ordinator shall have the sole discretion to decide whether to allocate the Additional GE Shares to GE Capital in full, in part, or at all. Please refer to "Our relationship with GE — Investment in our Company by GE Capital" for further details. You are cautioned not to place any undue reliance on whether the Global Co-ordinator will allocate the Additional GE Shares to GE Capital when making your own investment decision.

Dividends declared in the past may not be indicative of our dividend policy in the future.

Our subsidiary, NGC, declared dividends in the amount of RMB50.0 million during the year ended 31 December 2005. NGC paid the RMB50.0 million dividends during the year ended 31 December 2005 from its distributable profits for the year ended 31 December 2004. In 2006, NGC paid dividends in the amount of RMB86.0 million out of its distributable profits for the year ended 31 December 2005. NGC declared dividends in the amount of RMB58.8 million to the Company on 26 February 2007. After deducting various expenses, we paid dividends to our existing Shareholders (excluding the Pre-IPO Investors and GE Capital) in the amount of US$4.5 million in May 2007 out of our distributable profits. Our Directors may declare dividends after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, the

Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. For further details of our dividend policy, please refer to the section headed "Financial Information — Dividend Policy and Distributable Reserve" in this prospectus. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board. We cannot guarantee if and when we will pay dividends in the future.

Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from executing our growth strategy successfully.

We believe that our existing cash and cash equivalents together with the net proceeds from this Global Offering will be sufficient to meet our anticipated cash needs for the next 12 months from the date of the Listing. The timing and amount of our working capital and capital expenditure requirements may vary significantly depending on a number of factors, including market acceptance of our products, the need to adapt to changing technologies and technical requirements, and the existence of opportunities for expansion.

If our capital resources are insufficient to satisfy our liquidity requirements, we may seek to sell additional equity securities or debt securities or obtain debt financing. The sale of additional equity securities or convertible debt securities could result in additional dilution to our Shareholders. Additional debt would result in increased expenses and could result in covenants that would restrict our operations. We have not made arrangements to obtain additional financing, and there is no assurance that financing, if required, will be available in amounts or on terms acceptable to us, if at all.

There are risks associated with forward-looking statements.

This prospectus contains certain statements and information that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "could", "expect", "estimate", "may", "ought to", "should" or "will". Those statements include, among other things, the discussion of our growth strategy and expectations concerning our future operations, liquidity and capital resources. Purchasers of the Shares are cautioned that reliance on any forward-looking statements involves risks and uncertainties and that, although we believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be incorrect and as a result, the forward-looking statements based on those assumptions could also be incorrect. The uncertainties in this regard include, but are not limited to, those identified in this "Risk Factors" section, many of which are not within our control. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by us that our plans or objectives will be achieved, and investors should not place undue reliance on such forward-looking statements. We do not undertake any obligation to update publicly or release any revisions of any forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise.

Certain facts and statistics contained in this prospectus have come from official government publications whose reliability cannot be assumed or assured.

Certain facts and statistics in this prospectus related to the PRC, its economy and the industries in which we operate within the PRC are derived from official government publications generally believed to be reliable. While we have taken reasonable care to reproduce such information, we cannot guarantee the quality and reliability of such source material. These facts and statistics have not been independently verified by us and therefore we make no representation as to the accuracy of such facts and statistics, which may not be consistent with other information compiled within or outside the PRC and may not be complete or up-to-date. Due to possibly flawed or ineffective collection methods or discrepancies between published information and market practice and other problems, the statistics herein may be inaccurate or may not be comparable from period to period or to statistics produced for other economies and should not be unduly relied upon. Further, there can be no assurance that they are stated or compiled on the same basis or with the same degree or accuracy as may be the case elsewhere.

In all cases, investors should give consideration as to how much weight or importance they should place on all such facts and statistics.

You should read the entire prospectus carefully and we strongly caution you not to place any reliance on any information contained in press articles or other media, including, in particular, any projections, valuations, other forward-looking information or information about our Shareholders.

There has been press coverage, particularly in Ming Pao Daily News, am730 and The Standard, which includes information about our investors, certain projections, valuations, proposed proceeds of the Global Offering and other forward-looking information about us. We wish to emphasise to potential investors that we do not accept any responsibility for the accuracy or completeness of such press articles or other media and that such press articles or other media were not prepared or approved by us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any of the projections, valuations or other forward-looking information about us, or of any assumptions underlying such projections, valuations, other forward looking information or information about our Shareholders, included in or referred to by the media. To the extent that any such statements are inconsistent with, or conflict with, the information contained in this prospectus, we disclaim them. Accordingly, prospective investors should not rely on any such information.

RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, we must have sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Given that our business and operations are primarily located, managed and conducted in the PRC and none of our executive Directors is ordinarily resident in Hong Kong, we consider that it would be unduly burdensome for us to maintain management presence in Hong Kong in order to comply with the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for a waiver from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain regular communication with the Stock Exchange, we have put in place the following measures:

(a) pursuant to Rule 3.05 of the Listing Rules, we have appointed two authorised representatives who will act as our principal channel of communication with the Stock Exchange. One of our authorised representatives, Mr. Lui Wing Hong, Edward, is the company secretary and qualified accountant of our Company who is ordinarily resident in Hong Kong. He will be available to meet with the Stock Exchange on reasonable notice as and when required and will be readily contactable by the Stock Exchange;

(b) our authorised representatives will have means to contact all members of the Board (including the independent non-executive Directors) promptly at all times as and when the Stock Exchange wishes to contact our Directors for any matters;

(c) Mr. Liao Enrong, being our other authorised representative who is not ordinarily resident in Hong Kong, has indicated that he holds valid travel documents such that he will be able to make himself available in Hong Kong on reasonable notice if required by the Stock Exchange. All our Directors also hold valid travel documents that enable them to meet with the Stock Exchange in Hong Kong on reasonable notice, if required; and

(d) pursuant to Rule 3A.19 of the Listing Rules, we have appointed Guotai Junan Capital Limited as our compliance adviser for the period commencing on the Listing Date and ending on the date on which we comply with Rule 13.46 of the Listing Rules in respect of our financial results for the first full financial year commencing after the Listing Date to provide us with professional advice on continuing obligations under the Listing Rules and to act as the alternative channel of communication with the Stock Exchange.

RULE 10.04 OF THE LISTING RULES AND PARAGRAPH 5(2) OF APPENDIX 6

Pursuant to the GE Subscription Agreement, to the extent permitted by law and applicable stock exchange rules and to the extent that additional Shares that may be subscribed by GE Capital under a Qualifying IPO are counted as part of the public float under the applicable stock exchange rules, our Company shall use its best efforts to cause the underwriters of the Qualifying IPO to offer to GE Capital the right to purchase at least 5% of the Shares to be issued in the Qualifying IPO at the offer price of the Qualifying IPO ("Subscription Right"). Such Subscription Right provision is also provided in the

Shareholders' Agreement. The Global Offering and the proposed listing of our Company on the Stock Exchange as described in this prospectus is a Qualifying IPO for the purposes of the GE Subscription Agreement. If the Subscription Right is exercised by GE Capital and such Subscription Right is satisfied in full, it is currently expected that 15,000,000 Shares ("Additional GE Shares") will be placed to the GE Capital as part of the International Placing pursuant to the GE Subscription Agreement and the Shareholders' Agreement, and will be subject to the same terms as those generally offered to other investors under the Global Offering. On 15 June 2007, GE Capital has undertaken to the Global Co-ordinator and us that it will exercise the Subscription Right in full to subscribe for the Additional GE Shares at the Offer Price. However, the Global Co-ordinator shall have the sole discretion to decide whether to allocate the Additional GE Shares to GE Capital, or at all.

The issue of the Additional GE Shares, if any, will not be affected by the clawback mechanism; and the number of Additional GE Shares will not be increased even if the Over-allotment Option is exercised.

The subscription for the Additional GE Shares by GE Capital under the Global Offering will be made pursuant to the pre-existing GE Subscription Agreement and Shareholders' Agreement, and the Additional GE Shares, if allotted and issued to GE Capital, will rank pari passu in all respects with other Shares to be issued under the Global Offering. The number of Shares to be held by GE Capital immediately before and after the subscription for the Additional GE Shares are 45,000,000 and 60,000,000 respectively. The Additional GE Shares represent approximately 1.25% and 1.20% of the total issued share capital of the Company upon completion of the Global Offering before and after full exercise of the Over-allotment Option respectively. If the Over-allotment Option is not exercised and all the Additional GE Shares are allocated to GE Capital, GE Capital will be interested in 5% of the total issued share capital of the Company upon completion of the Global Offering. If the Over-allotment Option is exercised in full and all the Additional GE Shares are allocated to GE Capital, GE Capital's total shareholding in our Company will be diluted to approximately 4.82% of the total issued share capital of the Company upon completion of the Global Offering. If no Additional GE Shares are allotted to GE Capital, GE Capital's total shareholding in our Company will be diluted to approximately 3.75% and 3.61% of the total issued share capital of the Company upon completion of the Global Offering before and after full exercise of the Over-allotment Option, respectively.

The sole purpose of the allotment of the Additional GE Shares to GE Capital is to restore its shareholding in our Company upon completion of the Global Offering on a fully diluted basis (on the assumption that the Over-allotment Option is not exercised) to the level of its shareholding in our Company prior to the Global Offering. Our Directors believe that GE's equity investment in the Company is in the best interest of the Company and the Shareholders as a whole.

The allotment of the Additional GE Shares to GE Capital under the Global Offering will be conducted on the following terms and conditions, among other things:

(1) the Additional GE Shares will be offered to GE Capital at the Offer Price and on same terms and conditions as the Shares to be offered to other subscribers pursuant to the Global Offering; and

(2) the Shares currently held by GE Capital and the Additional GE Shares will be subject to a voluntary lock-up for a period of six months from the Listing.

All the special rights granted by the Company to GE Capital under the GE Subscription Agreement and Shareholders' Agreement will lapse upon Listing.

GE Capital will be regarded as a member of the public under the Listing Rules. GE Capital confirmed that it and its associates are not connected clients of the lead broker or of any distributors of the Global Offering as defined under Appendix 6 to the Listing Rules.

As GE Capital is an existing Shareholder prior to the Global Offering, we have obtained a waiver from strict compliance with Rule 10.04 of the Hong Kong Listing Rules and consent from the Stock Exchange under paragraph 5(2) of Appendix 6 to the Listing Rules (Placing Guidelines for Equity Securities) for the placing of the Additional GE Shares to GE Capital.

DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS

This prospectus includes particulars given in compliance with the Hong Kong Companies Ordinance, the Securities and Futures (Stock Market Listing) Rules and the Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement in this prospectus misleading.

UNDERWRITING

This prospectus is published solely in connection with the Hong Kong Public Offering. For applicants under the Hong Kong Public Offering, this prospectus and the related Application Forms contain the terms and conditions of the Hong Kong Public Offering. The Global Offering comprises the Hong Kong Public Offering of initially 30,000,000 Shares and the International Placing of initially 270,000,000 Shares (subject, in each case, to reallocation on the basis described in the section headed "Structure of the Global Offering" in this prospectus).

The listing of the Shares on the Stock Exchange is sponsored by Morgan Stanley. Pursuant to the Hong Kong Underwriting Agreement, the Hong Kong Public Offering is underwritten by the Hong Kong Underwriters. The International Placing is managed by the Global Co-ordinator and is underwritten by the International Underwriters. The International Underwriting Agreement is expected to be entered into on or about Tuesday, 26 June 2007, subject to agreement on the Offer Price between our Company and the Global Co-ordinator, on behalf of the Underwriters. If, for any reason, the Offer Price is not agreed between our Company and the Global Co-ordinator, on behalf of the Underwriters, the Global Offering will not proceed. Further details about the Underwriters and the underwriting arrangements are contained in the section headed "Underwriting" in this prospectus.

DETERMINATION OF THE OFFER PRICE

The Offer Shares are being offered at the Offer Price which will be determined by the Global Co-ordinator (on behalf of the Underwriters) and the Company on Tuesday, 26 June 2007, or such later date as may be agreed between the Global Co-ordinator and our Company but in any event no later than Monday, 2 July 2007.

If the Global Co-ordinator (on behalf of the Underwriters) and our Company are unable to reach an agreement on the Offer Price on Tuesday, 26 June 2007, or such later date or time as may be agreed between the Global Co-ordinator (on behalf of the Underwriters) and our Company but in any event no later than Monday, 2 July 2007, the Global Offering will not become unconditional and will lapse.

RESTRICTIONS ON SALE OF SHARES

Each person acquiring the Hong Kong Offer Shares under the Hong Kong Public Offering will be required to confirm, or be deemed by his acquisition of Hong Kong Offer Shares to confirm, that he is aware of the restrictions on offers and sales of the Offer Shares described in this prospectus.

No action has been taken to permit a public offer of the Offer Shares or the general distribution of this prospectus and/or the related Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus may not be used for the purposes of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation.

The Offer Shares are offered for subscription solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Global Offering to give any information, or to make any representation, not contained in this prospectus, and any information or representation not contained in this prospectus must not be relied upon as having been authorised by our Company, the Underwriters, any of their respective directors or any other persons or parties involved in the Global Offering.

United States

The Offer Shares have not been and will not be registered under the U.S. Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act.

The International Underwriters propose to place the Offer Shares outside of the United States in offshore transactions in reliance on Regulation S under the U.S. Securities Act and in accordance with applicable law. Certain of the International Underwriters propose to place the Offer Shares, through their respective U.S. selling agents, only to QIBs in the United States pursuant to Rule 144A. Any offer or sale of the Offer Shares in the United States will be made by broker-dealers who are registered as such under the U.S. Securities Exchange Act of 1934.

In addition, until 40 days after the first date upon which the Offer Shares were bona fide offered to the public, an offer of the Offer Shares within the United States by a dealer may violate the registration requirements of the Securities Act.

The Offer Shares have not been approved or disapproved by the United States Securities and Exchange Commission, any state securities commission in the United States or any other United States regulatory authority, nor have any of the foregoing authorities passed upon or endorsed the merits of the Global Offering or the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense in the United States.

United Kingdom

Each International Underwriter has represented and agreed that: (a) it has not made and will not make an offer of the Offer Shares to the public in the United Kingdom prior to the publication of a prospectus in relation to the Offer Shares that has been approved by the FSA except that it may make an offer of the Offer Shares to persons who fall within the definition of ''qualified investor'' as that term is defined in section 86(1) of FSMA or otherwise in circumstances which do not require the publication by the Company of a prospectus pursuant to section 85(1) of FSMA; (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) received by it in connection with the issue or sale of the Offer Shares in circumstances in which section 21(1) of FSMA does not apply; and (c) it has complied and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the Offer Shares in, from or otherwise involving the United Kingdom.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a "Relevant Member State"), no Offer Shares have been offered or will be offered to the public in that Relevant Member State prior to the publication of a prospectus in relation to the Offer Shares which has been approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive except that an offer of Offer Shares may be made to the public in that Relevant Member State at any time under the following exemptions under the Prospectus Directive, if they are implemented in that Relevant Member State:

(a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) by the managers to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the lead manager for any such offer;

(d) in any other circumstances which do not require the publication by us of a prospectus pursuant to Article 3(2) of the Prospectus Directive;

in each case, provided that no such offer of Shares shall result in a requirement for the publication of a prospectus pursuant to Article 3 of the Prospectus Directive or any measure implementing the Prospectus Directive in a Relevant Member State and each person who initially acquires any Offer Shares or to whom any offer is made under the Global Offering will be deemed to have represented, acknowledged and agreed that it is a "qualified investor" within the meaning of Article 2(1)(e) of the Prospectus Directive.

For the purposes of this provision, the expression of "offer to the public" in relation to any Offer Shares in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Offer Shares to be offered so as to enable an investor to decide to purchase or subscribe the Offer Shares, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Singapore

This prospectus has not been, and will not be, lodged with or registered as a prospectus by the Monetary Authority of Singapore in Singapore. Accordingly, this prospectus and any other document or material in connection with the offer of the Offer Shares may not be issued, circulated or distributed in Singapore nor may any of the Offer Shares be offered for subscription or purchase or made the subject of an invitation or offer for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) an institutional investor under Section 274 of the Securities and Futures Act, (ii) to a relevant person (as defined in Section 275(2)), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275 or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the Securities and Futures Act.

Where the Offer Shares are subscribed or purchased under Section 275 by a relevant person, namely a person which is:

(a) a corporation (which is not an accredited investor) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary is an accredited investor, that shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest in that trust shall not be transferable for six months after that corporation or that trust has acquired the Offer Shares under Section 275 except:

    (1) to an institutional investor under Section 274, or to a relevant person, or to any person pursuant to an offer that is made on terms that such rights or interest are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets;

    (2) where no consideration is given for the transfer; or

    (3) by operation of law.

Furthermore, no advertisement may be made offering or calling attention to an offer or intended offer of the Offer Shares.

Japan

The Offer Shares have not been and will not be registered under the Securities and Exchange Law of Japan (the ''Securities and Exchange Law'') Article 4, Paragraph 1 by virtue of the requirement under Article 2, Paragraph 3, Item 2-ro being satisfied, and Offer Shares will not be offered or sold, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to any exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Canada

Each International Underwriter has represented and agreed that it has not offered, sold or distributed and will not offer, sell or distribute the Offer Shares, directly or indirectly, in any province or territory of Canada or to or for the benefit of any resident of any province or territory of Canada, except pursuant to an exemption from the requirement to file a prospectus in the province or territory of Canada in which such offer, sale or distribution is made, and only through a dealer duly registered under the applicable securities laws of that province or territory in circumstances where no exemption from the applicable registered dealer requirement is available.

Australia

This prospectus is not a disclosure document under Chapter 6D of the Corporations Act 2001 (Cth) (the "Australian Corporations Act"), has not been and will not be lodged with the Australian Securities and Investments Commission and does not purport to include the information required of a disclosure document under Chapter 6D of the Australian Corporations Act. Accordingly, each International Underwriter has represented and agreed that (i) it has and will only offer for sale in Australia the Offer Shares to persons to whom it is lawful to offer Offer Shares without disclosure to investors under Chapter 6D of the Australian Corporations Act under one or more exemptions set out in section 708 of the Australian Corporations Act, (ii) this prospectus will be made available in Australia only to those persons as set forth in clause (i) above and (iii) it will send each offeree in Australia a notice stating in substance that by accepting this offer, the offeree represents that it is a person as set forth in clause (i) above and that, unless permitted under the Australian Corporations Act such offeree will not sell or offer for sale in Australia any Offer Shares sold to it within 12 months after the sale to it under this prospectus.

France

Each International Underwriter has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, Offer Shares to the public in France and that offers and sales of Offer Shares in France will be made only to providers of investment services relating to portfolio management for the account of third parties and/or to qualified investors (*investisseurs qualifiés*), as defined in Articles L.411-2 and D.411-1 to D.411-3 of the French Code *monétaire et financier*, but excluding individuals referred to in Article D.411-1 II 2°.

In addition, each International Underwriter has represented and agreed that it has not distributed or caused to be distributed and will not distribute or cause to be distributed in France this prospectus or any other offering material relating to the Offer Shares other than to investors to whom offers and sales of Offer Shares in France may be made as described above.

Republic of Italy

The Offer Shares have not been registered pursuant to Italian securities legislation and, accordingly, each International Underwriter has represented and agreed that it has not offered or sold, and will not offer or sell, any Shares in the Republic of Italy in a solicitation to the public, and that sales of the Offer Shares in the Republic of Italy shall be effected in accordance with all Italian securities, tax and exchange control and other applicable laws and regulations.

Each of the International Underwriters has represented and agreed that it will not offer, sell or deliver any Shares or distribute copies of this prospectus or any other document relating to the Offer Shares in the Republic of Italy except:

(1) to "Professional Investors", as defined in Article 31.2 of CONSOB Regulation No. 11522 of 1 July 1998, as amended ("Regulation No. 11522"), pursuant to Articles 30.2 and 100 of Legislative Decree No. 58 of 24 February 1998, as amended ("TUF"); or

(2) in any other circumstances where an express exemption from compliance with the solicitation restrictions applies, as provided under the TUF or CONSOB Regulation No. 11971 of 14 May 1999, as amended.

Any such offer, sale or delivery of the Offer Shares or distribution of copies of this prospectus or any other document relating to the Shares in the Republic of Italy must be:

(a) made by investment firms, banks or financial intermediaries permitted to conduct such activities in the Republic of Italy in accordance with Legislative Decree No. 385 of 1 September 1993 as amended ("Decree No. 385"), TUF, Regulation No. 11522 and any other applicable laws and regulations; and

(b) in compliance with any other applicable notification requirement or limitation which may be imposed by *Commissione Nazionale per le Società e la Borsa*, the Italian securities and exchange Commission, or the Bank of Italy.

United Arab Emirates

This prospectus is not intended to constitute an offer, sale or delivery of shares or other securities under the laws of the United Arab Emirates ("UAE"). The Offer Shares have not been and will not be registered under Federal Law No.4 of 2000 Concerning the Emirates Securities and Commodities Authority, or with the UAE Central Bank, the Dubai Financial Market, the Abu Dhabi Securities Market or with any other UAE exchange.

The Offer Shares herein have not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities in the UAE, and do not constitute a public offer of securities in the UAE in accordance with the Commercial Companies Law, Federal Law No. 8 of 1984 (as amended) or otherwise.

In relation to its use in the UAE, this prospectus is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The Offer Shares may not be offered or sold directly or indirectly to the public in the UAE.

Kuwait

The Offer Shares have not been licensed for offering in Kuwait by the Ministry of Commerce and Industry or the Central Bank of Kuwait or any other relevant Kuwaiti government agency. The offering of the Offer Shares in Kuwait on the basis a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 31 of 1990, as amended, and Ministerial Order No. 113 of 1992, as amended. No private or public offering of the Offer Shares is being made in Kuwait, and no agreement relating to the sale of the Offer Shares will be concluded in Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Offer Shares in Kuwait.

PRC

This prospectus does not constitute a public offer of the Offer Shares, whether by way of sale or subscription, in the PRC. The Offer Shares are not being offered and may not be offered or sold directly or indirectly in the PRC to, or for the benefit of, legal or natural persons of the PRC, except pursuant to applicable laws and regulations of the PRC. For the purpose of this paragraph, PRC does not include Hong Kong, Macau and Taiwan.

Cayman Islands

The Offer Shares may not be offered or sold, directly or indirectly, to the public in the Cayman Islands.

APPLICATION FOR LISTING ON THE STOCK EXCHANGE

Application has been made to the Listing Committee for the listing of, and permission to deal in, Shares in issue and to be issued pursuant to the capitalisation issue of the Offer Shares (including Shares which may fall to be issued under the Over-allotment Option) and upon the exercise of options which may be granted under the Share Option Scheme up to 10% of the issued shares upon Listing.

Save as disclosed herein, no part of the share or loan capital of our Company is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought in the near future.

Under section 44B(1) of the Hong Kong Companies Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to us by the Stock Exchange.

HONG KONG SHARE REGISTER AND STAMP DUTY

All Shares issued pursuant to applications made in the Hong Kong Public Offering and the International Placing will be registered on our Company's branch register of members to be maintained in Hong Kong. The Company's principal register of members will be maintained by our Company's principal share registrar in the Cayman Islands.

Dealings in the Shares registered in the branch register of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of Shares will be paid to the Shareholders listed on the Hong Kong branch register of our Company, by ordinary post, at the Shareholders' risk, to the registered address of each shareholder of our Company.

SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

Subject to the granting of listing of, and permission to deal in, the Shares on the Stock Exchange and our Company's compliance with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares on the Stock Exchange or any other date as HKSCC chooses. Settlement of transaction between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

TAX ADVICE RECOMMENDED

Applicants for the Offer Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding and dealing in the Shares. It is emphasised that none of our Company, the Underwriters, the Sponsor, any of their respective directors, supervisors, agents or advisers or any other person involved in the Global Offering accepts responsibility for any tax effects or liabilities of holders of Shares resulting from the subscription, purchase, holding or disposal of Shares.

OVER-ALLOTMENT AND STABILISATION

In connection with the Global Offering, the Global Co-ordinator (on behalf of the International Underwriters) or any person acting for it may over-allot or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. However, there is no obligation on the Global Co-ordinator or any person acting for it to do this. Such stabilisation action, if taken, may be discontinued at any time and is required to be brought to an end after a limited period.

In connection with the Global Offering, our Company intends to grant to the Global Co-ordinator (on behalf of the International Underwriters) the Over-allotment Option, which will be exercisable in full or in part by the Global Co-ordinator (on behalf of the International Underwriters) no later than 30 days after the last day for the lodging of applications under the Hong Kong Public Offering, i.e. Wednesday, 25 July 2007. Pursuant to the Over-allotment Option, our Company may be required to issue and allot at the Offer Price up to an aggregate of 45,000,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the International Placing, if any.

Further details with respect to stabilisation and the Over-allotment Option are set out in the section headed "Structure of the Global Offering — Over-allotment and stabilisation" of this prospectus.

PROCEDURES FOR APPLICATION FOR SHARES

The procedures for applying for the Hong Kong Offer Shares are set out in the section headed "How to Apply for the Hong Kong Offer Shares" and on the relevant Applications Forms.

STRUCTURE OF THE GLOBAL OFFERING

Details of the structure of the Global Offering, including its conditions, are set out in the section headed "Structure of the Global Offering" in this prospectus.

Name	Residential Address	Nationality
DIRECTORS		
Executive Directors		
Mr. Hu Yueming	No.1907, Jinji Tangcheng 99 Hangzhong Road Dajie Jianye District Nanjing PRC	PRC
Mr. Chen Yongdao	Room 204 Building 9, Yingtian Garden Yuhua District Nanjing PRC	PRC
Mr. Li Cunzhang	Room 603 Building 10, Wangfu Garden Baixia District Nanjing PRC	PRC
Mr. Lu Xun	Room 601 Building 16, Xin Garden Baixia District Nanjing PRC	PRC
Mr. Li Shengqiang	Room 102, Building 9 Zongcan Ganxiu Suozhong District 71 Haifu Alley Guanghui Menwai Nanjing PRC	PRC
Mr. Liu Jianguo	Room 402, Unit 2, Building 2 Rulinyaju, Taiping South Road Baixia District Nanjing PRC	PRC
Mr. Liao Enrong	Room 106, South Block 20 Doucai Bridge Gulou District Nanjing PRC	PRC

Name	Residential Address	Nationality
Non-executive Directors		
Mr. Zhu Keming	Room 802, Unit 1, Block E Wangfu Garden 63 Wangfu Dajie Nanjing PRC	PRC
Mr. Zhang Wei	Room 304, Block 6 No.2 Qijiaqiao Gulou District Nanjing PRC	PRC
Mr. Wang Qi	23E Greenwood Court Discovery Bay Hong Kong	PRC
Mr. Richard Andrew Cornish Piliero	27 Claymore Road Block B 10-03 Singapore 229544	United Kingdom
Independent non-executive Directors		
Mr. Jiang Xihe	Room 604, Building 9 78 Bancang Street Nanjing PRC	PRC
Mr. Zhu Junsheng	No. 1501, Gate 3 39A Nanxiange Street Xuanwu District Beijing PRC	PRC
Mr. Chen Shimin	Flat A, Block 2, 8/F Grand Pacific Views Tuen Mun Hong Kong	United States
Members of the Audit Committee of the Board		
Mr. Jiang Xihe *(Chairman)*	Room 604, Building 9 78 Bancang Street Nanjing PRC	PRC

Name	Residential Address	Nationality
Mr. Zhu Junsheng	No. 1501, Gate 3 39A Nanxiange Street Xuanwu District Beijing PRC	PRC
Mr. Wang Qi	23E Greenwood Court Discovery Bay Hong Kong	PRC
Members of the Remuneration Committee of the Board		
Mr. Chen Shimin *(Chairman)*	Flat A, Block 2, 8/F Grand Pacific Views Tuen Mun Hong Kong	United States
Mr. Zhang Wei	Room 304, Block 6 No. 2 Qijiaqiao Gulou District Nanjing PRC	PRC
Mr. Jiang Xihe	Room 604, Building 9 78 Bancang Street Nanjing PRC	PRC

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong	Room 106, South Block 20 Doucai Bridge Gulou District Nanjing PRC	PRC
Mr. Lui Wing Hong, Edward	Flat E, 7/F Block 5 Grand Palisades 8 Shan Yin Road Tai Po Hong Kong	Hong Kong

PARTIES INVOLVED

Sole global co-ordinator, bookrunner, and lead manager and sponsor	Morgan Stanley Asia Limited 30th Floor, Three Exchange Square Central Hong Kong
Auditors and reporting accountants	Deloitte Touche Tohmatsu Certified Public Accountants 35th Floor One Pacific Place 88 Queensway Hong Kong
Our legal advisers	*as to Hong Kong law* Charltons 10th Floor Hutchison House 10 Harcourt Road Central Hong Kong *as to US law* Debevoise & Plimpton LLP 13th Floor Entertainment Building 30 Queen's Road Central Hong Kong *as to PRC law* Jingtian & Gongcheng 15th Floor The Union Plaza 20 Chaoyangmenwai Dajie Beijing 100020 PRC *as to Cayman Islands law* Maples and Calder 1504 One International Finance Centre 1 Harbour View Street Hong Kong

Legal advisers to the Sponsor and the Underwriters	*as to Hong Kong law and US law* Clifford Chance 28th Floor Jardine House 1 Connaught Place Central Hong Kong
	as to PRC law Zhong Lun Law Firm 12th Floor & 13th Floor Building 1, China Merchants Tower 118 Jianguo Road Chaoyang District Beijing 100022 PRC
Property valuer	DTZ Debenham Tie Leung Limited 10th Floor Jardine House 1 Connaught Place Central Hong Kong
Receiving bankers	Bank of Communications Co., Ltd., Hong Kong Branch 20 Pedder Street Central Hong Kong
	Bank of China (Hong Kong) Limited 1 Garden Road Hong Kong
Compliance adviser	Guotai Junan Capital Limited 27th Floor, Low Block Grand Millennium Plaza 181 Queen's Road Central Hong Kong

CORPORATE INFORMATION

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
Company secretary	Mr. Lui Wing Hong, Edward, CPA (Aust.), FCPA
Qualified accountant	Mr. Lui Wing Hong, Edward, CPA (Aust.), FCPA
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
Principal bankers	Bank of Communications Co., Ltd., Nanjing Branch 124 Zhongshanbei Road Nanjing PRC
	China Merchants Bank Co., Ltd., Nanjing Branch 1 Hanzhong Road Nanjing PRC

Certain information and statistics furnished in this section and other sections of this prospectus are related to the industry that we operate in. No independent verification has been carried out in respect of the information and statistics which are derived from official government publications. While we, the Sponsor, the Underwriters or their respective directors, officers and advisers have exercised reasonable care in compiling and reproducing information and statistics from sources described herein, we cannot ensure the accuracy of such information and statistics derived from official government publications and such information and statistics may not be consistent with other information prepared inside or outside the PRC. You should not unduly rely on any of such information and statistics contained in this section.

INTRODUCTION

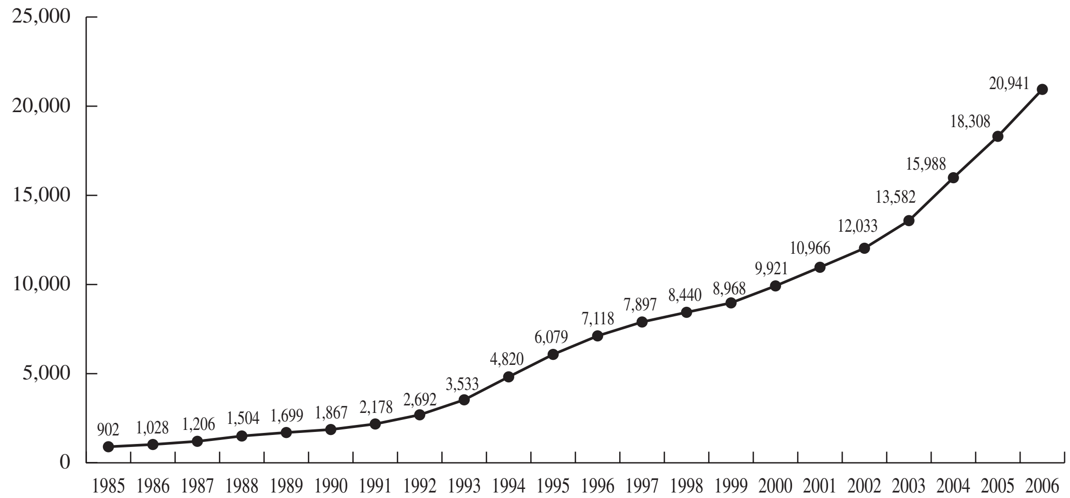
Mechanical transmission equipment, generally known as gearboxes, is an important component in a wide range of machinery and equipment that are used in various industries such as power generation (wind and coal-fired), petrochemicals, metallurgy, production of construction materials, locomotives and marine vessels. Mechanical transmission equipment can be broadly divided into three categories: (i) automobile mechanical transmission equipment; (ii) general purpose mechanical transmission equipment for industrial use; and (iii) special purpose mechanical transmission equipment for industrial use. Our General Purpose Gear Transmission Equipment mainly falls within the second category and our High-speed Series Gear Transmission Equipment, Gear Transmission Equipment for Construction Materials, Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills, Wind Gear Transmission Equipment and Marine Gear Transmission Equipment fall within the third category.

Mechanical transmission equipment is the system of gears and/or the hydraulic system (called variously "hydrodynamic", "fluid" or "automatic" transmission) that transmits mechanical power from a prime mover, such as an engine or electric motor, to some form of useful output device, normally rotary in form.

ECONOMIC DEVELOPMENT IN THE PRC

Our production facilities are all located in the PRC. Because we generated 88.3% of our revenue in 2006 from domestic sales, the GDP growth in the PRC and the growth of various PRC manufacturing industries are important factors to our growth. According to the official public information published by the National Bureau of Statistics of China, the economy in the PRC has grown rapidly over the past two decades with an average GDP growth rate of approximately 16% from 1985 to 2006. The National Bureau of Statistics of China also reported that China's GDP in 2006 was approximately RMB20,941 billion, representing growth of 10.7% from the previous year.

China's GDP (RMB billions)



(Source: National Bureau of Statistics of China)

According to the official public information by the Centre for Forecasting Science ("CEFS")*(note 1)*, Chinese Academy of Science (中國科學院預測科學研究中心) in February 2006, China's GDP from 2006 to 2010 is expected to grow at approximately 8% per year.

Since mechanical transmission equipment is an important component in a wide range of machinery and equipment that are used in various industries, the growth in the demand for mechanical transmission equipment co-relates to the growth in fixed asset investment in the PRC. According to National Bureau of Statistics of China, total fixed asset investment in the PRC increased from RMB3,292 billion in 2000 to RMB10,987 billion in 2006, representing a compounded annual growth rate ("CAGR") of over 22%.

MECHANICAL TRANSMISSION EQUIPMENT INDUSTRY IN THE PRC

Growth in the PRC mechanical transmission equipment industry

The gear manufacturing industry in the PRC achieved rapid growth in the last ten years, and the growth in the PRC mechanical transmission equipment industry has been driven by the growth of the PRC's various manufacturing industries. According to CGMA*(note 2)*, the total production value of mechanical transmission equipment in the PRC increased from approximately RMB24 billion in 2000 to approximately RMB50 billion in 2004, representing a CAGR of 20% *(Source: CGMA China Gear Industry Yearbook 2006)*.

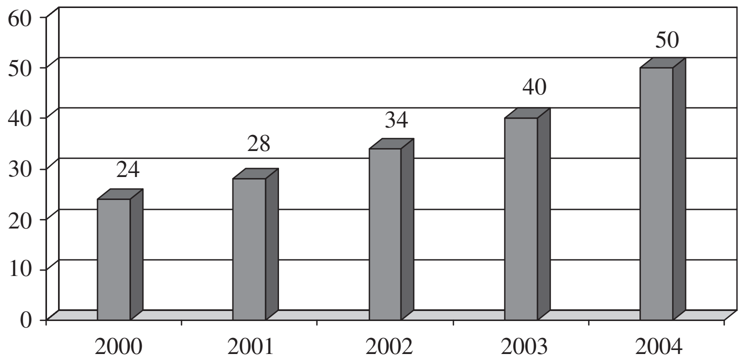
Notes:

(1) CEFS in Beijing was established by the Chinese Academy of Sciences, an institution under the State Council of the PRC. CEFS consists of four research departments specialising in the prediction of agricultural output, strategic resources, macro-economic conditions and world market conditions and it releases research results in these areas. Neither the Directors nor the Sponsor has commissioned CEFS to prepare any research reports.

(2) CGMA is a nationwide organisation in gear industry approved by the PRC Government. Its functions include conducting PRC gear industry survey and organising exhibitions and trainings in relation to the gear industry. It publishes CGMA China Gear Industry Yearbook, a non-governmental publication, on an annual basis, containing statistics and market updates of the PRC gear industry survey. Neither the Directors nor the Sponsor has commissioned CGMA to prepare CGMA China Gear Industry Yearbook. Mr. Hu Yueming, Chairman and an executive Director of our Group, is a council member of CGMA. Save as aforesaid, CGMA is an independent third party of our Group.

The following diagram illustrates the annual growth in the total production value of mechanical transmission equipment in the PRC (in billions of RMB) from 2000 to 2004:

Total production value of mechanical transmission equipment in the PRC (RMB billion)



(Source: CGMA China Gear Industry Yearbook 2006)

According to CGMA, there are approximately 1,000 mechanical transmission equipment manufacturers of various scales in the PRC. While there are numerous mechanical transmission equipment manufacturers in the PRC, only four manufacturers attained reported annual sales revenue of more than RMB900 million in 2005 *(Source: CGMA China Gear Industry Yearbook 2006).*

PRC mechanical transmission equipment manufacturers

According to CGMA, the ten largest mechanical transmission equipment manufacturers in the PRC in terms of reported sales revenue in 2005 are set forth in the following table:

	PRC mechanical transmission equipment manufacturers	**Reported sales revenue**
		(RMB in millions)
1.	Shaanxi Fast Gear Co., Ltd. (陝西法士特齒輪有限公司)	1,913.0
2.	Shanghai Automotive Co., Ltd. Automobile Gear Works (上海汽車股份有限公司齒輪汽車齒輪總廠)	1,310.1
3.	Hangzhou Advance Gearbox Group Co., Ltd. (杭州前進齒輪箱集團有限公司)	1,309.7
4.	NGC	975.6 *(note 1)*
5.	Taixing Reducer Co., Ltd. (泰星減速機股份有限公司)	821.1
6.	Chongqing Gearbox Co. Ltd. (重慶齒輪箱有限公司)	802.8
7.	Jiangsu Tailong Reducer (Group) Co. (江蘇省泰隆減速機(集團)公司)	800.3
8.	Chongqing Qingshan Industrial Co., Ltd. (重慶青山工業有限責任公司)	742.0
9.	Qijiang Gear Works (綦江齒輪廠)	737.6
10.	Shanxi Datong Gear Group Co., Ltd. (山西大同齒輪集團有限責任公司)	596.9

(Source: CGMA China Gear Industry Yearbook 2006)

Note:

(1) This figure is based on the unaudited sales revenue of NGC for 2005 reported to CGMA in 2006. Our actual audited revenue in 2005 under IFRS is RMB946.7 million.

WIND POWER INDUSTRY

We believe the rising level of global environmental concerns and awareness over the use of conventional energy sources including oil, natural gas and coal has increased the growth potential of renewable energy sources such as wind energy. Wind energy, generally regarded as an environmentally friendly energy source, has been considered as an alternative to conventional energy sources. At present, wind power has become one of the technologies that is able to make a substantial contribution to the world's power supply. Wind power costs have dropped substantially over the past 20 years and, at their current levels, wind energy is competitive with many forms of conventional energy, and cheaper than many other renewable energy sources.

Actual and forecast growth in wind power capacity

According to BTM Consult ApS*(note 1)*, the global wind power industry has expanded by a CAGR of 24.4% between 2001 and 2006, measured by cumulative capacity in MW, which increased from 24,927 MW in 2001 to 74,306 MW in 2006.

BTM Consult ApS expects that the wind power industry will increase its newly installed capacity from around 15,016 MW in 2006 to around 33,500 MW in 2011, while the cumulative installed capacity will increase from 74,306 MW in 2006 to 203,154 MW in 2011, representing a CAGR of 22.3% *(Source: BTM Consult ApS — World Market Update 2006)*.

Note:

(1) Founded in 1986, BTM Consult ApS is a private independent consultancy company based in Denmark and specialised in renewable energy including wind energy. BTM Consult ApS states on its website that its staff has been working with wind energy utilisation since 1979. Services provided by BTM Consult ApS include market assessment and business development, appraisal and due diligence investigations. It publishes, among other things, International Wind Energy Development — World Market Update, a non-governmental publication, on an annual basis since 1995 containing statistics and market updates of the worldwide wind energy industry. BTM Consult ApS states on its website that it believes that it is vital that its advice be impartial and guards its independence carefully. It also states on its website that it has, through years of international involvement, established a technology base with a network of contacts all over the world, which enables it to follow international policy development closely. Neither the Directors nor the Sponsor commissioned BTM Consult ApS to prepare any research report and BTM Consult ApS is an independent third party of the Group.

BTM Consult ApS expects that China's cumulative installed capacity for wind power will increase threefold from 2,588 MW in 2006 to 17,388 MW in 2011, achieving a world market share of approximately 8.6% *(Source: BTM Consult ApS — World Market Update 2006)*. The following table illustrates the forecast capacity of wind power in different areas of the world from 2006 to 2011:

	Cumulative installed capacity (MW) by 31 December 2006	Newly installed capacity (MW) in 2006	Forecasted newly installed capacity (MW) between 2007 and 2011					Forecast cumulative installed capacity (MW) by 31 December 2011[(1)]
	2006	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**Cumulative**
US	13,577	3,515	4,850	5,700	6,250	7,750	8,500	46,627
Europe	48,627	7,682	8,610	9,760	12,030	13,150	15,600	107,777
South & East Asia	8,963	3,220	4,340	5,110	5,650	5,800	6,950	36,813
(including China)	(2,588 for China)	(1,334 for China)	(2,300 for China)	(2,500 for China)	(3,000 for China)	(3,000 for China)	(4,000 for China)	(17,388 for China)
OECD-Pacific	2,617	485	725	1,000	1,150	1,250	1,400	8,142
Other areas	525	114	275	410	650	885	1,050	3,795
Total newly installed capacity every year		15,016	18,800	21,980	25,730	28,835	33,500	203,154

(Source: BTM Consult ApS — World Market Update 2006)

Note 1: This column reflects the cumulative installed capacity by 31 December 2006 together with the forecasted newly installed capacity between 2007 and 2011.

The data presented in the World Market Update 2006 includes both supply side and demand side information. Market data from the demand side will normally, whenever possible, include only erected and installed wind turbines. Supply side data, on the other hand, is based on information collected from the wind turbine manufacturers. According to BTM Consult ApS, there is no international standard method for collecting market information data, and no standard form used by turbine manufacturers for preparing such data. Some manufacturers include only installed and operating wind turbines, whilst others include all units shipped from the originating factories.

In general, the forecast contained in the World Market Update 2006 prepared and released by BTM Consult ApS is based on an analysis of the practical conditions for wind energy in individual countries and the proven dynamics in specific markets, the most important issues being (i) national energy plans and government support for renewable energy; (ii) growth in the market in recent years and the present dynamics of the industry; (iii) assessment of wind resources available in the market and how they can be utilised; (iv) technological development in terms of commercially available wind turbines; (v) assessment of previous patterns of development in similar markets, and the likelihood of their replication; (vi) information about large projects in the planning and preparation phase; and (vii) increased engagement of utilities and large energy companies. BTM Consult ApS also states that political support for the wind energy and other renewables is growing for a host of reasons. The key drivers include climate change, the Kyoto Protocol (an agreement made under the United Nations Framework Convention on Climate Change with effect from February 2005), the industry's job creation potential and a desire for greater energy self-sufficiency.

Leading wind turbine manufacturers

According to BTM Consult ApS, set out below are the top ten manufacturers of wind turbines in the world in 2006:

	Actual Supply (MW) in 2006	Market share (%) 2006
Vestas	4,239	28.2
Gamesa	2,346	15.6
GE Energy	2,326	15.5
Enercon	2,316	15.4
Suzlon	1,157	7.7
Siemens	1,103	7.3
Nordex	505	3.4
REPower	480	3.2
Acciona	426	2.8
Goldwind	416	2.8
Others	689	4.6
Total	16,003	107 *(note1)*

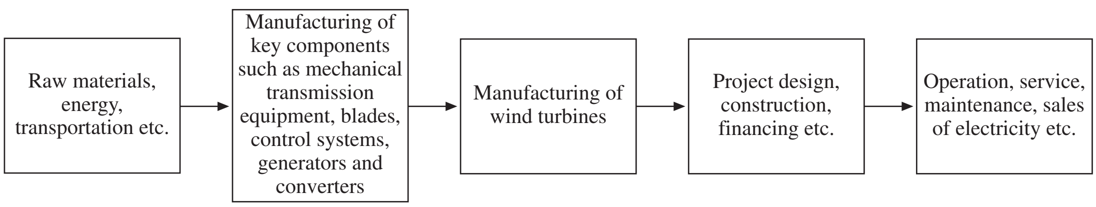
(Source: BTM Consult ApS — World Market Update 2006)

Note:

(1) According to BTM Consult ApS, the market share of each individual suppliers is calculated by dividing the MW delivered by the total recorded installation in the market. This explains why the total sum of the percentages for the quantity supplied comes to 107% of the installed capacity for 2006. The total MW delivered to the market during 2006 was 16,003 MW, whereas the total capacity actually installed, according to market sources, was 15,016 MW, this has caused the total sum of the percentages for the quantity supplied to be 107% (rather than 100%) of the total installed capacity for 2006. The reason for the difference between the total MW delivered to the market and the total capacity actually installed is that there were projects under construction and not yet commissioned as well as wind turbines in transit etc. for 2006.

Supply chain of the wind power industry

Mechanical transmission equipment is one of the key components in the manufacture of wind turbines. Set out below is a simplified supply chain of the wind power industry:



(Source: BTM Consult ApS — World Market Update 2005)

According to the forecast conducted by BTM Consult ApS, there will be a supply constraint of key components, including mechanical transmission equipment, for wind turbines from 2006 to 2010 *(Source: BTM Consult ApS — International Wind Energy Development Supply Chain Assessment 2006-2010)*. According to BTM Consult ApS, the supply capacity of mechanical transmission equipment for wind turbine generators is expected to increase by 50% to 100% by 2010 and a 75% increase should be sufficient to meet the expected demand. However, BTM Consult ApS expects that there will be a lack of sufficient supply of mechanical transmission equipment from 2007 to 2009 *(Source: BTM Consult ApS — International Wind Energy Development Supply Chain Assessment 2006-2010)*. BTM Consult ApS considers that the shortage of mechanical transmission equipment production facilities is one of the reasons for such insufficient supply.

The current and future wind turbine mechanical transmission equipment manufacturers in the PRC

According to China Gear Industry Yearbook 2006 published by CGMA, the major types of wind turbines in the PRC are 600 KW to 800 KW series and several leading mechanical transmission equipment manufacturers in the PRC have commenced mass production of mechanical transmission equipment for wind turbines of these types. These leading PRC mechanical transmission equipment manufacturers have also commenced development and trial production of mechanical transmission equipment for 1.5 MW and 2.0 MW range wind turbine generators. CGMA expects that the standard for design and production of mechanical transmission equipment for wind turbines will be enhanced in two to three years' time and that the PRC manufacturers will further develop in the production of mechanical transmission equipment for 1.0 MW or above series wind turbines. BTM Consult ApS also commented in the World Market Update 2006 that there are great expectations for the installation of wind power in the PRC in the coming five years, due to the strong government support for the wind power industry, increasing environmental protection awareness in the PRC and robust demand for energy fuelled by the growth in the country's economy.

BTM Consult ApS also predicts that there will be a trend of globalisation in the wind energy industry in that the manufacture of wind turbines and components will be shifted to the local markets. One of the reasons for this trend is that wind power development is seen as part of a country's infrastructure, like roads and airports, and involves work with a high content of local labour. Labour cost is also a significant factor for the manufacturers in determining whether to shift the manufacture of wind turbines and components to the local markets. In light of the above, we believe that there will be an increasing demand for mechanical transmission equipment for wind turbines in the PRC in line with the growth of wind power industry in the PRC.

RELEVANT PRC LAWS AND REGULATIONS AFFECTING THE WIND POWER INDUSTRY

China has adopted the policy of encouraging and supporting wind power generation. The "Electric Power Law of the People's Republic of China" (中華人民共和國電力法) implemented in 1996 set out the State's encouragement and support on the utilisation of renewable energy and clean energy, including wind energy, for power generation. The "Law of the People's Republic of China on Conserving Energy" (中華人民共和國節約能源法) implemented in 1998 made "energy conservation" a long-term strategic direction for China's economic development, and reiterated the State's encouragement of the development and utilisation of new energy and renewable energy. The newly revised "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution" promulgated in 2000 also encouraged the development and utilisation of clean energy such as solar, wind and water energy. The "2005 Guiding Catalogue of Industrial Structure Regulation" issued by the State Council on 2 December 2005, which serves as an important guideline for the investment direction, management of investment projects by the government, as well as formulation and implementation of polices regarding finance and tax, credit, land and import/export, encouraged the development and utilisation of renewable energy including wind power generation.

The PRC Government has also introduced various policies and measures to encourage wind power generation. For instance, the "Guidelines of Speeding Up Localisation of Wind Turbines" promulgated by the State Economic and Trade Commission (國家經貿委《關於加快風力發電技術裝備國產化的指導意見》) on 12 February 2000 set out the PRC Government's support, in terms of policy and funding, to wind farms using domestic wind turbine technologies and facilities. Pursuant to "Notice on Certain Opinions Regarding Further Promotion of the Development of Wind Power Generation" issued by State Economic and Trade Commission (Guo Jing Mao Dian Li [1999] No. 1286) (國家經貿委《印發〈關於進一步促進風力發電發展的若干意見〉的通知》) (國經貿電力 [1999] 1286號), wind power generation projects using domestic facilities will be given priority such as grid connection. Meanwhile, with a view to facilitating localisation, the PRC Government also encourages foreign investors to co-develop technologies and facilities with domestic manufacturers for wind power generation. Domestic facilities purchased by wind farms invested and constructed by foreign investors can enjoy reduced value-added tax and enterprise income tax pursuant to "Notice of MOFTEC Regarding Opinions on Further Encouragement of Foreign Investments Issued by the Office of State Council (Guo Ban Fa [1999] No. 73 (國務院辦公廳轉發外經貿部等部門關於當前進一步鼓勵外商投資的意見的通知》(國辦發 [1999] 73號). On 1 December 2001, the Ministry of Finance and the State Administration of Taxation jointly issued the "Circular on the Comprehensive Utilisation of Some Resources and VAT Policy on Other Products" which stipulated the policy of reducing the value-added tax payable by 50% levied on electricity generated from wind power.

To further facilitate the development and utilisation of renewable energy, including wind energy, China formulated and promulgated the "Renewable Energy Law of the People's Republic of China" in 2005 ("Renewable Energy Law"), stipulating various policy supporting measures for the development and utilisation of renewable energy including wind energy. Following the promulgation of the Renewable Energy Law, the PRC Government has also successively promulgated various relevant ancillary measures, including "Catalogue of Renewable Energy Development", "Tentative Management Measures for Price and Sharing of Expenses for Electricity Generation from Renewable Energy", "Management Regulations for Electricity Generated From Renewable Energy" and "Provisional Measures for Administration of Special Capital on Developing Renewable Energy Resources" to lay down specific rules and regulations to facilitate the development of wind power industry in the PRC.

OVERVIEW

We are one of the leading mechanical transmission equipment producers in the PRC with a history dating back to 1969. According to the first edition of the Gear Market Information published by CGMA in 2007, we are the leading supplier of mechanical transmission equipment for wind turbines in the PRC, accounting for approximately 90% of the market share in the PRC in 2006. We were recognised by CGMA as one of the largest mechanical transmission equipment producers in the PRC in terms of reported sales revenue in 2005. We are engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment used in a wide range of industrial applications including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining.

Set out below is a breakdown of our products by sales volume and sales revenue for the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2006:

	NGC				The Group											
	For the period from 1 January 2004 to 25 February 2004				For the 2004 Period				For the year ended 31 December							
									2005				2006			
	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%
	(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)	
High-speed Series Gear Transmission Equipment	14.7	0.7	974	1.2	337.3	1.7	22,682.8	3.3	525.1	2.0	27,518.3	2.9	345.7	1.2	17,713.9	1.5
Gear Transmission Equipment for Construction Materials	1,203.1	52.3	35,118	44.2	9,810.8	49.4	285,881.0	41.5	10,691.7	40.5	307,767.5	32.5	6,788.0	24.0	195,434.4	16.5
General Purpose Gear Transmission Equipment	240.4	10.4	9,568	12.1	2,017.8	10.1	78,014.4	11.3	2,294.1	8.7	90,198.9	9.5	3,575.0	12.6	139,184.3	11.8
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	613.2	26.6	24,877	31.3	3,590.5	18.1	146,052.7	21.2	7,574.6	28.7	301,021.7	31.8	7,137.7	25.2	289,162.5	24.4
Wind Gear Transmission Equipment	—	—	—	—	9.7	0.1	655.9	0.1	388.3	1.4	26,525.6	2.8	4,742.4	16.8	317,743.3	26.8
Marine Gear Transmission Equipment	—	—	—	—	—	—	—	—	13.0	0.1	717.9	0.1	58.0	0.2	3,167.9	0.3
Others *(note)*	230.1	10.0	8,875	11.2	4,107.4	20.6	155,578.0	22.6	4,902.0	18.6	192,936.5	20.4	5,671.5	20.0	221,900.8	18.7
Total	2,301.5	100.0	79,412	100.0	19,873.5	100.0	688,864.8	100.0	26,388.8	100.0	946,686.4	100.0	28,318.3	100.0	1,184,307.1	100.0

Note: The following table sets forth a breakdown of our sales volume and revenue generated from sales of other mechanical transmission equipment.

	NGC				The Group											
	For the period from 1 January 2004 to 25 February 2004				For the 2004 Period				For the year ended 31 December							
									2005				2006			
	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%
	(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)	
Others																
Mechanical transmission equipment for rubber production	7	3.0	265.0	3.0	135	3.3	5,082.9	3.3	90	1.8	3,149.9	1.6	218	3.8	7,415.6	3.3
Mechanical transmission equipment for mixers	18	7.8	585.5	6.6	611	14.9	19,567.5	12.6	360	7.3	10,248.7	5.3	609	10.7	16,826.9	7.6
Mechanical transmission equipment for coupling machines	3	1.3	106.3	1.2	17	0.4	656.0	0.4	43	0.9	1,712.3	0.9	27	0.5	1,094.0	0.5
Customised mechanical transmission equipment and related spare parts	123	53.5	4,563.7	51.4	2,132	51.9	79,231.8	50.9	2,711	55.3	105,436.7	54.6	3,584	63.2	146,525.6	66.0
Spare parts	79	34.4	3,354.4	37.8	1,160	28.2	49,079.2	31.5	1,646	33.6	70,334.0	36.5	1,229	21.7	49,866.0	22.5
Engineering gears	—	—	—	—	—	—	—	—	11	0.2	496.6	0.3	4	0.1	172.7	0.1
Locomotive gears	—	—	—	—	52	1.3	1,960.6	1.3	41	0.9	1,558.3	0.8	—	—	—	—
Total	230	100.0	8,874.9	100.0	4,107	100.0	155,578	100.0	4,902	100.0	192,936.5	100.0	5,671	100.0	221,900.8	100.0

We sell our products in the PRC and also export our products to the overseas markets. Our revenue generated from domestic sales and export sales accounted for 88.3% and 11.7%, respectively, for 2006.

COMPETITIVE STRENGTHS

We believe our historical success and future prospects are underpinned by a combination of competitive strengths including:

Strong research, design and development capabilities

We have a strong ability to design, develop, engineer and manufacture a broad range of mechanical transmission equipment. As of 31 December 2006, we had approximately 200 staff members engaged in the research, design and development of mechanical transmission equipment. Many of our staff members are graduates from leading universities in the PRC and hold master or bachelor degrees in engineering. Through collaborations with leading universities in the PRC such as the Nanjing University of Science & Technology (南京理工大學) and the Southeast University (東南大學), we offer master engineering degree programmes to our staff members in order to strengthen our research, design and development capabilities. Our research, design and development capabilities have been recognised by various governmental agencies and industry associations in the PRC. For example, in 2003, our MFY280 gear reducer for driving mills (磨機減連機成套裝置) was awarded the National Certificate for Project Torch (國家級火炬計劃項目證書) by the Ministry of Science and Technology in recognition of our research, design and development achievements. In addition, we have received government subsidies for certain of our research, design and development projects.

Our strong research, design and development capabilities have been recognised by internationally renowned business partners such as GE. We have entered into a joint development agreement with GE for the development and manufacture of Wind Gear Transmission Equipment for its 1.5 MW wind turbines. Please refer to the section headed "Our Relationship with GE — Joint Development with GE" of this prospectus for further information in relation to our collaboration with GE.

We have accumulated advanced technological know-how through more than 35 years of operations. We use different software and calculation programmes such as KISSsoft calculation programmes for designing and developing our products and assessing the durability of mechanical transmission equipment. KISSsoft is a software used for the design, optimisation and analysis of power transmission and machinery components including gears, shafts, shaft-hub connections and complete mechanical transmission equipment. The software is used to calculate the strength or lifetime of these components. As of the Latest Practicable Date, we had two invention patents, two design patents and six utility model patents registered in the PRC as well as 20 other pending patent applications (已受理專利申請) in the PRC. Our ability to produce high performance mechanical transmission equipment is demonstrated by the fact that we have been able to secure purchase orders from global industrial product manufacturers, such as GE, one of the leading wind turbine suppliers in the world, to supply Wind Gear Transmission Equipment for their wind turbines. We believe our advanced technological know-how and research, design and development capabilities enable us to produce technologically advanced, high quality and reliable products, whilst our superior design capabilities enable us to develop a successful customised product with an optimised cost structure. Certain series of our mechanical transmission equipment have been certified by the PRC authorities such as Nanjing City Science and Technology Bureau (南京市科學技術局), Nanjing Economic Committee (南京市經濟委員會) and Jiangsu Science and Technology Bureau (江蘇省科學技術廳) as having attained international standards or quality comparable to similar products produced by international manufacturers.

Strong market position and reputable customer base

Our products are sold to reputable domestic and international customers. We have achieved a strong market position with respect to the sale of mechanical transmission equipment in the PRC. According to the first edition of Gear Market Information published by CGMA in 2007, sales of our Wind Gear Transmission Equipment had a market share of approximately 90% in the PRC in 2006. According to the CGMA China Gear Industry Yearbook 2006, we were one of the top four manufacturers of mechanical transmission equipment in the PRC in terms of reported sales revenue in 2005. Goldwind, a leading manufacturer of wind turbines in China and ranked by BTM Consult ApS as one of ten largest wind turbine manufacturers worldwide in 2006, is one of our Wind Gear Transmission Equipment customers. Goldwind is based in the Urumqi Economic and Technological Development Zone and its principal business includes the manufacture and sale of wind turbines and related products. Our other PRC-based customers for our Wind Gear Transmission Equipment include Dongfang and Shanghai Electric Wind Power Equipment Co., Ltd. (上海電氣風電設備有限公司), while other PRC-based customers include Baoshan Iron & Steel Co., Ltd. (上海寶山鋼鐵股份有限公司) (a steel manufacturer in China), Yiyang Rubber & Plastics Machinery Group Co., Ltd. (益陽橡膠塑料機械集團有限公司) (a rubber and plastic machinery manufacturer in China), CISDI Engineering Co., Ltd. (中冶賽迪工程技術股份有限公司) (a consultancy and engineering firms engaged in the metallurgy industry), China National Machinery & Equipment Import & Export Corporation

(中國機械設備進出口總公司) (a machinery trading firm in China), China First Heavy Industries (中國第一重型機械集團公司) (a machinery manufacturer in China) and Tianjin Cement Industry Design & Research Institute Co., Ltd. (天津水泥工業設計研究院有限公司) (a general contractor of cement-related equipment in China).

We have also been enhancing our international market position, as our products are being sold to leading industrial product manufacturers around the world, including GE Energy, Nordex and REpower. GE Energy is a leading wind turbine supplier in the world. Incorporated in Denmark and based in Germany, Nordex is another international leading manufacturer of wind turbines. REpower, another international leading wind turbine manufacturer based in Germany, focuses on the development, production and installation of multi-MW wind turbines. All these companies, according to BTM Consult ApS, were among the top ten wind turbine suppliers worldwide in 2006. In July 2006, we entered into a supply agreement with a third party Japanese trading company for the supply of 2.0 MW series Wind Gear Transmission Equipment to Fuji Heavy Industries Ltd. as the end-user. The Wind Gear Transmission Equipment manufactured by us pursuant to this supply agreement was exported to Fuji Heavy Industries Ltd. in May 2007. In April 2007, we entered into a development support service agreement with one of the worldwide leading railway infrastructure technical service providers based in France, pursuant to which it agreed to provide technical assistance and expertise to us in relation to the design and development of mechanical transmission equipment for light rails and high speed rails.

We have also entered into a joint development agreement with GE for the development and manufacture of Wind Gear Transmission Equipment for its 1.5MW wind turbines and have established a joint venture with ZF China for the production of Marine Gear Transmission Equipment. Please see the sections headed "Our Relationship with GE" and "Business — Research, design and development" in this prospectus for further details. We intend to leverage on our relationships with leading international industrial product manufacturers, such as GE and ZF, with a view to enhancing our technological and production capability and expanding our market presence in China and globally.

Diversified product portfolio and ability to improve production mix to cater to evolving market demand

We have a diversified product portfolio that includes seven main product categories. These products can be used in a wide range of industrial applications including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemical, construction and mining.

Because our products can be utilised in a variety of industry applications, we believe we are able to benefit from different growth opportunities presented by the economic development or the growth of any particular industry that uses our products. We believe that we are able to adjust our product mix by altering the application of our machinery and altering our manufacturing process in response to changes in market conditions or trends.

For example, in 2004, we started to shift our focus to producing Wind Gear Transmission Equipment, because of the rapid growth experienced by the wind power industry in China and globally, and we expect this growth trend to continue. We entered into supply agreements with leading wind turbine manufacturers such as GE and Goldwind for the development and supply of our Wind Gear Transmission Equipment. As a result, the contribution to our total revenue from the sale of our Wind Gear Transmission Equipment increased from 0.1% in the 2004 Period to 26.8% in 2006. Meanwhile, in 2004, we decreased production of our Gear Transmission Equipment for Construction Materials because of the downward pressure on the cement industry resulting from changes in PRC governmental policies which regulated the number of new projects in this industry. We believe our ability to change our production mix and resource allocation to cater to evolving market demands enables us to be more adaptable to changes in the economic and market conditions experienced by any individual market or industry sector.

Competitive cost structure

Our production facilities are located in the PRC, where costs of labour, land, transportation and other utilities are lower compared with other more developed countries where some of our international competitors are located, including Germany and the United States. Because of our competitive cost structure, we believe that we are able to produce and sell technologically advanced products with lower prices compared to similar products produced by major international mechanical transmission equipment manufacturers. We believe this advantage is especially important for markets in which our customers conduct global searches for high quality components at the best prices for their global supply chains.

Superior and well-developed manufacturing capabilities

In combination with our strong research, design and development capabilities, we believe that our well-developed manufacturing capabilities enable us to manufacture high-quality products in a highly efficient manner. We are equipped with various production facilities and manufacturing equipment, many of which were imported from countries such as Germany, Italy, Japan and Austria. For instance, we have imported high efficient gear processing machinery from Germany and Italy, large-scale digital control processing machinery from Japan, material thermal treatment precision control machinery from Austria and three-dimensional measuring machinery from Germany. Such facilities are used in enhancing precision in our various major production procedures, including processing, thermal treatment and inspection, for our manufacture of mechanical transmission equipment. Along with our facilities and equipment, we believe that our superior in-house manufacturing technology and knowhow, flexible manufacturing process, highly skilled workforce, and strict quality control and test procedures help ensure quality assurance, on-time delivery, fast availability and efficient shift of product mix.

Experienced management and operating team

We have a strong management team, the members of which have an average of more than 20 years of experience in the mechanical transmission equipment industry. Most of the core members are engineers by profession with experience in enterprise management. Our Chairman, Mr. Hu Yueming, a senior engineer by profession, sits as a council member of CGMA and was awarded the title of an "Outstanding Entrepreneur of the Machinery Industry" by the China Machinery Industry Federation in 2004.

Many of our technical staff members are recruited from leading universities such as Tsinghua University (清華大學) and Shanghai Jiaotong University (上海交通大學). Some of our senior engineers, in recognition of their knowledge and experience in the mechanical transmission equipment and related industries, have been selected as members of exclusive and well-respected industry associations such as the

Chinese Mechanical Engineers Society (中國機械工程學會) and the National Standardisation Technical Committee of Gears (全國齒輪標準化技術委員會). We believe that the combination of rich industry knowledge and professional management experience of our management team and our high quality engineering staff have been and will continue to be important to our success.

STRATEGY

Our goal is to become one of the world-leading mechanical transmission equipment manufacturers specialising in the research, design, development, manufacture and distribution of high quality mechanical transmission equipment and related products. To this end, we plan to carry out or are in the process of carrying out the following plans:

Expand our product range to cover a wider variety of high quality and specialised products

We aim to continue to leverage on our technological and design capabilities to design and manufacture technologically advanced and high quality mechanical transmission equipment. We plan to expand our product range by designing and manufacturing more powerful Wind Gear Transmission Equipment, as we believe the wind power industry has strong growth potential both domestically and internationally. According to BTM Consult ApS, cumulative installed global wind power capacity is forecasted to increase from 74,306 MW as of 31 December 2006 to 203,154 MW by the end of 2011. We intend to capitalise on this rising demand. For example, under our joint development agreement with GE we will supply Wind Gear Transmission Equipment for 1.5 MW wind turbines, and we ultimately intend to produce Wind Gear Transmission Equipment for 5 MW wind turbines. We also plan to produce a greater variety of Marine Gear Transmission Equipment, mechanical transmission equipment for light rails and high-speed rails and mechanical transmission equipment for controllable pitch propellers. We have established a joint venture company with ZF China for the assembly and sale of Marine Gear Transmission Equipment. Through our collaborations with leading international industrial product manufacturers, in conjunction with our advanced research and development capability, we believe that we will expand our product portfolio. By expanding our product range, we believe we can solidify our market leadership position in the PRC and enhance our market share internationally.

Expand our production capacity to increase our production of Wind Gear Transmission Equipment, Marine Gear Transmission Equipment and mechanical transmission equipment for light rails and high-speed rails

We intend to make a variety of investments in order to expand our production capacity of Wind Gear Transmission Equipment, Marine Gear Transmission Equipment and mechanical transmission equipment for light rails and high-speed rails. For example, we intend to expand facilities and purchase equipment related to the production of our Wind Gear Transmission Equipment. We also intend to expand facilities and purchase equipment for the production of mechanical transmission equipment for marine vessels and light rails and high-speed rails. By expanding our production capacity, we believe we will be able to satisfy increased demand for our products in the future and increase our revenue. For further details of our planned capacity expansion, see the section headed “Financial Information — Planned capital expenditure” of this prospectus.

Continue to invest in research, design and development capabilities and strengthen our technological capabilities

We believe that one of the key elements for our future success is our continued investment in research, design and development capability to improve the quality and technological capabilities of our products and to expand our product portfolio. As our customers' products continue to be upgraded, we have to improve our products both in relation to design and technological capabilities. We have invested in the development of new products including Wind Gear Transmission Equipment and Marine Gear Transmission Equipment. For the 2004 Period and the two years ended 31 December 2006, we spent RMB4.2 million, RMB25.2 million and RMB30.9 million, respectively, in research and development activities, part of which has been capitalised, and we plan to continue to invest in research, design and development for our business in the future.

As part of our plan to keep up with the latest technological developments in our industry, we will continue to improve the technological capabilities of our research, design and development team. We plan to increase the number of master engineering degree programmes and MBA programmes, which are organised through our collaboration with various leading universities in the PRC, that we offer to our employees. In addition, we seek to recruit mechanical transmission equipment industry experts from overseas countries such as Japan and Germany.

Broaden and strengthen relationships with our strategic business partners and develop new strategic business partnerships

We intend to continue to leverage on existing relationships with our international business partners and establish partnerships with new international business partners to broaden the range of products we supply. In particular, we intend to expand the series and range of products officially recognised by our business partners such that we may become their "qualified suppliers" for a wider range of products. For example, over time we intend to move from supplying our Wind Gear Transmission Equipment for GE's 1.5 MW wind turbines to supplying equipment for up to 5 MW wind turbines. We also intend to provide more custom-designed or jointly developed products to our international customers. For example, aside from the assembly and sale of mechanical transmission equipment for marine vessels by ZF Nanjing, our joint venture with ZF China, we also intend to invest in the development and production of controllable propellers and hydraulic pressure controlling systems for export sales to ZF in the international market.

We intend to build upon our experience and market knowledge derived from our strategic co-operation and development relationships with leading manufacturers such as GE, ZF and Goldwind. We believe that our relationships with these customers will increase our profile and credibility both in China and internationally, which will enable us to establish and enhance our credibility with other potential leading domestic and international industrial product manufacturers and explore additional opportunities for strategic business partnerships.

Invest in production facilities to manufacture raw materials for critical components for our products and secure supply for our operations

We currently rely on third party suppliers for the raw materials, such as forged steel and cast iron products, that we use in our business. However, with the expansion of our production capacity, we intend to invest in production facilities (through joint venture or otherwise) to manufacture forged steel and cast iron products to secure such critical raw material supply for our operations. As a result of this investment, we expect to reduce our reliance on third party suppliers in terms of availability, quantity and quality of key raw materials and components supply.

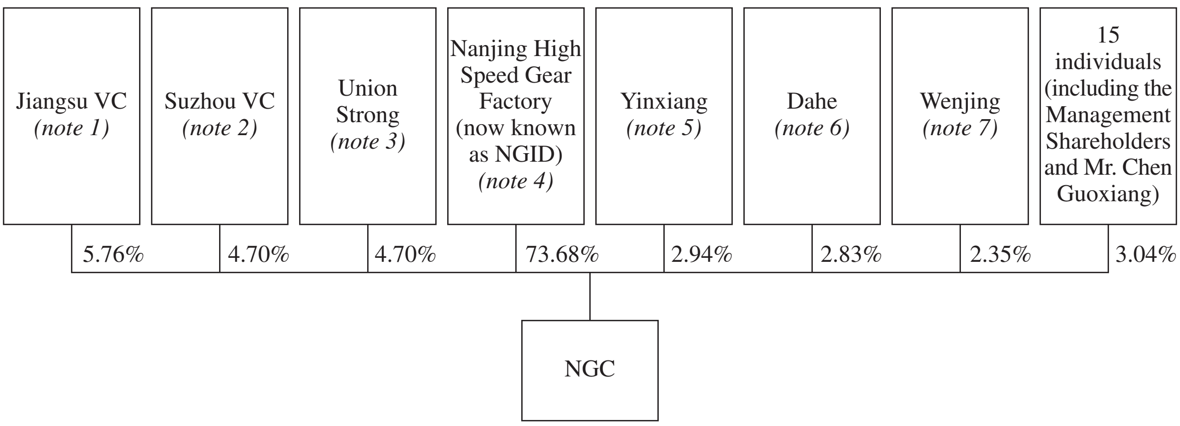
HISTORY AND DEVELOPMENT

Our history can be traced back to 1969 when the Second Machinery Maintenance Station of Nanjing (南京第二機床廠) and Nanjing Mechanic School (南京技工學校) merged to establish Nanjing Machinery Maintenance Factory (南京機床修理廠), a State-owned enterprise. Nanjing Machinery Maintenance Factory changed its name to Nanjing High Speed Gear Factory (南京高速齒輪箱廠) in 1975 which was held by the State through Nanjing Machinery and Electronics Industrial (Group) Co., Ltd. (南京機電產業(集團)有限公司) ("Nanjing Electrical"). Nanjing High Speed Gear Factory had been engaged in the business of manufacturing mechanical transmission equipment and related products since its establishment.

Incorporation of NGC

In August 2001, NGC was established in the PRC as a joint stock company by Nanjing High Speed Gear Factory as the major promoter and 21 other promoters (including six entities, namely Jiangsu VC, Suzhou VC, Union Strong, Yinxiang, Dahe and Wenjing and 15 individuals consisting of the Management Shareholders and one independent individual, namely Mr. Chen Guoxiang). Nanjing High Speed Gear Factory transferred all of its mechanical transmission equipment manufacturing related assets into NGC as its capital contribution for the incorporation of NGC, and the other promoters contributed cash.

The following diagram sets out the shareholding structure of NGC as it was established on 16 August 2001:



Notes:

(1) Jiangsu VC, a company incorporated in the PRC, will be indirectly interested in approximately 3.46% of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised) through Wise-Win, a company owned and controlled by it.

(2) Suzhou VC is a State-owned company and independent of and not connected with, the Management Shareholders, the chief executive, the directors and the substantial shareholders of our Company or any of its subsidiaries or any of their respective associates.

(3) Union Strong, a company incorporated in the PRC, is independent of and not connected with, the Management Shareholders, the chief executive, the directors and the substantial shareholders of our Company or any of its subsidiaries or any of their respective associates.

(4) In July 2003, Nanjing High Speed Gear Factory was transformed into a limited liability company, namely NGID.

(5) Yinxiang is a company incorporated in the PRC, owned and controlled by Mr. Yin Shouyuan, Ms. Wang Yachan and Ms. Zhao Yunzong, who also own and control Maxjoy, a BVI company which will hold approximately 0.97% interest of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

(6) Dahe, a company incorporated in the PRC, is independent of and not connected with, the Management Shareholders, the chief executive, the directors and the substantial shareholders of our Company or any of its subsidiaries or any of their respective associates.

(7) Wenjing, a company incorporated in the PRC, is owned and controlled by Mr. Wang Zhengqin and Mr. Wang Zhengwei, who also own and control Golden Step, a BVI company which will hold approximately 0.78% interest of our Company upon completion of the Global Offering (assuming the Over-allotment Option is not exercised).

Since the incorporation of NGC in August 2001, eight of the Management Shareholders, namely Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Li Shengqiang, Mr. Lu Xun, Mr. Liu Jianguo, Mr. Liao Enrong and Mr. Zhang Xueyong, have been involved in the management of NGC. During the Track Record Period, Mr. Hu Yueming has been the chairman of NGC while Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Li Shengqiang, Mr. Lu Xun and Mr. Liu Jianguo have been the executive directors of NGC.

There were no direct or indirect shareholding changes in NGC since its establishment until July 2003.

Increases in the shareholdings of the Controlling Group in NGC

Since 2002, pursuant to various guidance papers issued by the Nanjing Municipal Government aiming to reform and privatise the State-owned enterprises in Nanjing in order to improve their efficiency and indebtedness level, many State-owned enterprises, including the Nanjing High Speed Gear Factory and hence NGC, underwent reforms to become private enterprises. Following this macro reform, the Controlling Group, namely the Management Shareholders, Mr. Pan Jinhong and Mr. Liu Xuezhong and his wife, Ms. Li Yuelan, took this opportunity to increase and consolidate, directly and indirectly, their respective shareholdings in NGC's former shareholder, namely NGID, and NGC.

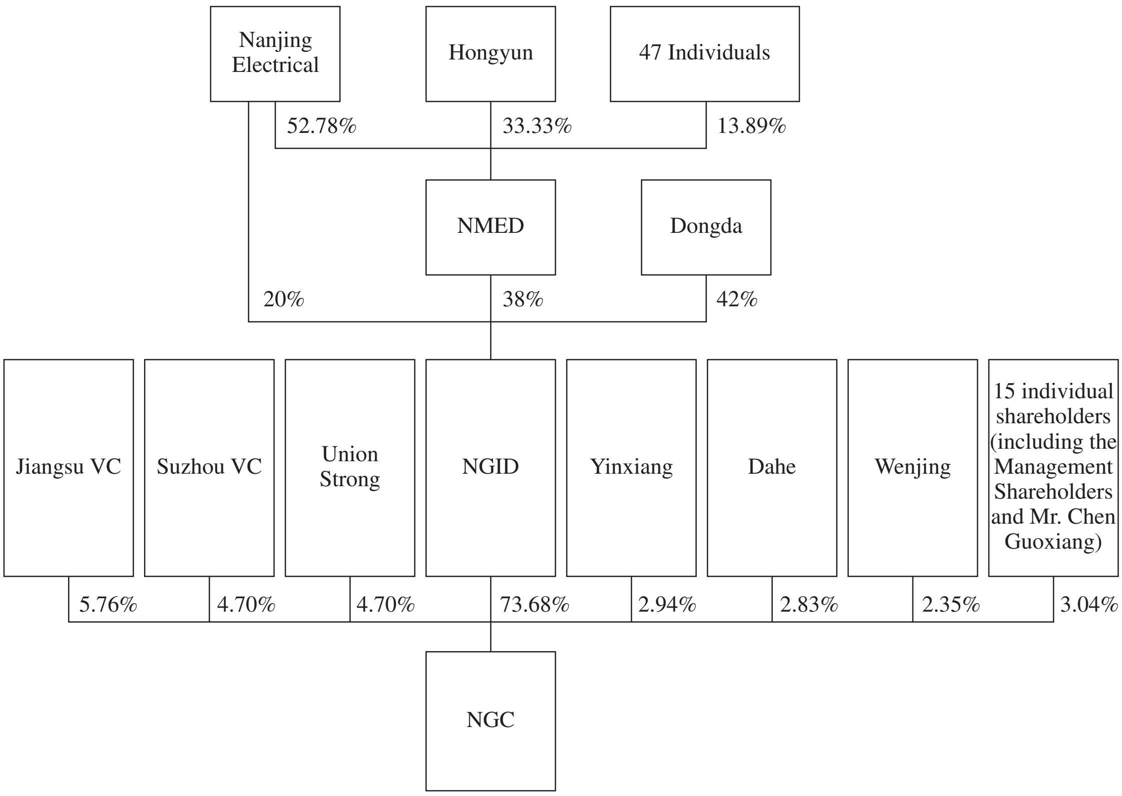
The Controlling Group increased its shareholding in NGC through two levels: (i) indirectly at the level of NGID and its shareholder, and (ii) directly at the level of NGC.

(i) *Indirectly at the level of NGID and its shareholder, NMED (as defined below):*

In July 2003, as the first step of the reform of Nanjing High Speed Gear Factory, Nanjing Machinery and Economic Development Co., Ltd. (南京機械經濟開發有限公司) ("NMED") and Dongda Technology Joint Stock Company Limited (東大科技園股份有限公司) ("Dongda") became shareholders of the Nanjing High

Speed Gear Factory by way of transfer of interest from the then sole shareholder of the Nanjing High Speed Gear Factory, namely Nanjing Electrical. NMED, which was also a state-controlled enterprise, was in turn owned by Nanjing Electrical as its majority shareholder together with Shanghai Hongyun Investment Management Co., Ltd. (上海宏運投資管理有限公司) ("Hongyun"), a company controlled by Mr. Liu Xuezhong and his wife, Ms. Li Yuelan and a group of 47 individuals led by Mr. Pan Jinhong ("47 Individuals"). As confirmed by the PRC Legal Advisers, Mr. Pan Jinhong exercised control over the voting rights of the 47 Individuals in NMED pursuant to the authority granted to him by the other 46 individuals. Dongda was a company controlled by Mr. Liu Xuezhong and his wife, Ms. Li Yuelan.

In July 2003, Nanjing Electrical, NMED and Dongda made further capital contributions and transformed Nanjing High Speed Gear Factory into a limited liability company, namely NGID. Upon completion of the transformation, NGID was owned as to 42% by Dongda, 20% by Nanjing Electrical and 38% by NMED. The following diagram sets out the shareholding structure of NGC (as well as its then majority shareholder, namely NGID) in July 2003 upon completion of the aforesaid changes:



Since then, as part of the privatisation of NGID, the shareholdings of NGID and NMED underwent a number of changes. As a result, the effective shareholdings in NGC also underwent changes. The resulting increases in the shareholding of the Management Shareholders in NGID and NMED were undertaken through the increases in the shareholdings of Lianxin, which is a company wholly-owned by the Management Shareholders, in these two companies. A summary of the historical changes in the effective shareholding of NGC through the changes in the respective shareholdings of NMED and NGID is set out below:

Step	Date	Relevant event	Transferor	Transferee	Consideration of transfer (RMB) (Approx.)	Corresponding percentage of shareholding in NGC (%)
1.	26 February 2004	Transfer of 32.78% interest in NMED	Nanjing Electrical *(note 1)*	Hongyun *(note 2)* and 47 Individuals	10.6 million	9.18
2.	27 February 2004	Transfer of 40% interest in NMED	Hongyun	Nanjing High Speed	15.2 million	11.20
3.	14 October 2004	Transfer of 40% interest in NMED	Nanjing High Speed	Hongxin *(note 3)*	15.5 million	8.40
4.	6 December 2004	Transfer of 20% interest in NGID	Nanjing Electrical	Lianxin, NMED, Dongda *(note 4)*	30.1 million	11.05
5.	27 December 2004	Transfer of 46% interest in NGID	Dongda	Zhongtai Group *(note 5)*	41.7 million	25.42
6.	30 December 2004	Transfer of 20% interest in NMED	Nanjing Electrical	Lianxin	14.0 million	4.86
7.	23 March 2005	Transfer of 39.41% interest in NMED	46 individuals out of the 47 Individuals *(note 6)*	Mr. Pan Jinhong *(note 7)*	14.2 million	9.58
8.	7 April 2005	Transfer of 46% interest in NGID	Zhongtai Group	Mr. Liu Xuezhong, Ms. Li Yuelan	41.7 million	25.42
9.	24 October 2005	Transfer of 40% interest in NMED	Hongxin	Lianxin	14.4 million	9.73

Notes:

(1) Nanjing Electrical was a State-owned enterprise as at 26 February 2004.

(2) Hongyun is a limited liability company controlled by Mr. Liu Xuezhong and his wife, Ms. Li Yuelan. Mr. Liu and Ms. Li also own and control Luckever, which will hold an approximately 13.13% shareholding in the Company immediately following the Global Offering, assuming the Over-allotment Option is not exercised.

(3) 南京市宏欣創業投資有限公司 ("Hongxin") is a limited liability company incorporated in the PRC which is owned and controlled by the Management Shareholders.

(4) Dongda is a limited liability company incorporated in the PRC controlled by Mr. Liu Xuezhong and Ms. Li Yuelan.

(5) Jiangsu Zhongtai Group Co., Ltd. (江蘇中泰集團有限公司) ("Zhongtai Group"), a limited liability company incorporated in the PRC and is owned and controlled by Mr. Liu Xuezhong and Ms. Li Yuelan.

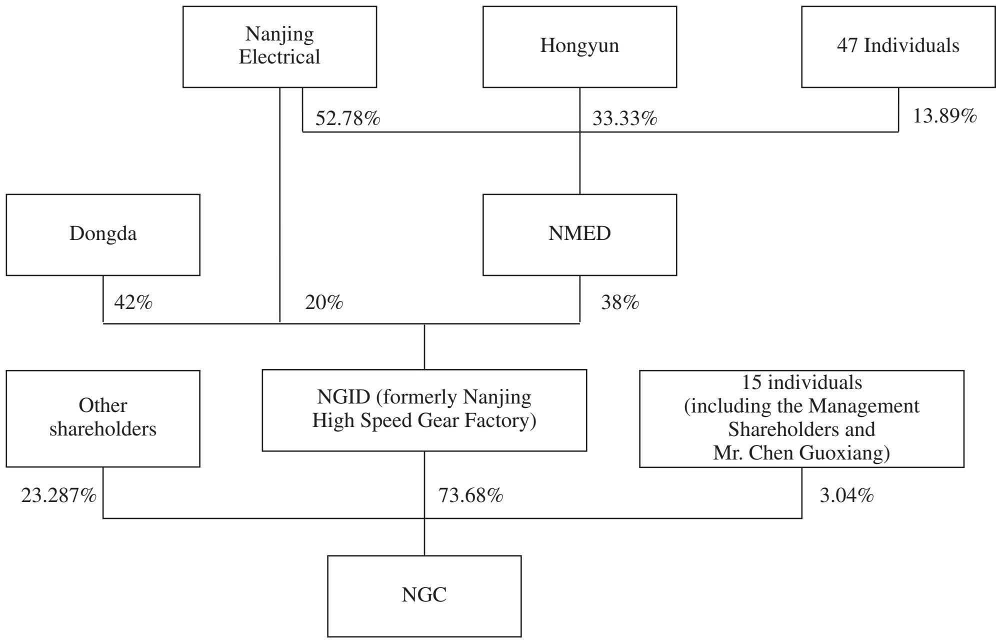
(6) So far as our Directors are aware, 46 individuals (other than Mr. Pan Jinhong) out of the 47 Individuals are independent third parties of our Group, our Directors and their respective associates.

(7) Mr. Pan Jinhong owns and controls Wiaearn, which will hold an approximately 5.02% shareholding in our Company immediately following the Global Offering, assuming the Over-allotment Option is not exercised. Please refer to the paragraph headed "Group Structure" of this section for further details.

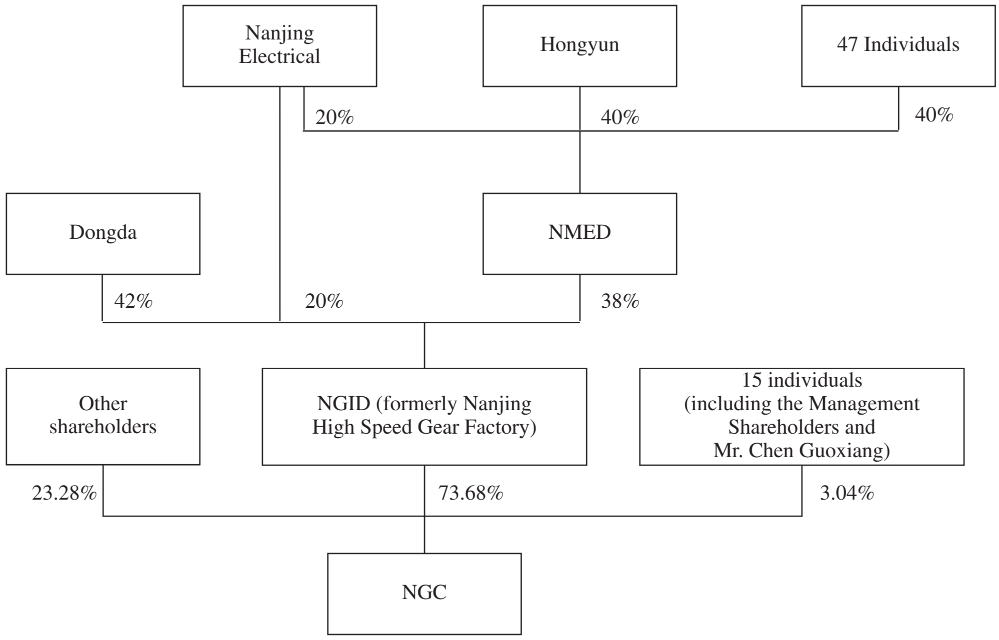
On 26 February 2004, upon completion of the transfer as set out in step 1 in the table on page 80, Mr. Pan Jinhong (through his control over the voting rights of the 47 Individuals), together with Mr. Liu Xuezhong and Ms. Li Yuelan (through their shareholdings in Hongyun) controlled a majority of voting rights in NMED. NMED and Dongda (a company controlled by Mr. Liu Xuezhong and Ms. Li Yuelan) controlled the majority of voting rights in NGID. NGID and the Management Shareholders controlled the majority of voting rights in NGC.

The charts below illustrate the effective historical changes in the shareholdings of NMED and NGID prior to and upon completion of step 1 in the table on page 80 on 26 February 2004:

Prior to step 1 (i.e. before 26 February 2004) in the table on page 80:



Upon completion of step 1 (i.e. on 26 February 2004) in the table on page 80:



The Controlling Group, which comprises the Management Shareholders, Mr. Pan Jinhong, Mr. Liu Xuezhong and his wife Ms. Li Yuelan have, since 26 February 2004, directly or indirectly controlled more than 50% voting rights in aggregate in NGC. The Controlling Group is considered to act as a group of controlling shareholders based on the following reasons:

(a) they have had investment in the Company, NGC, NGID and NMED throughout the Track Record Period. In particular, they have had interest in NGID (the former controlling shareholder of NGC) and NMED since February 2004. Even though neither NGID nor NMED currently has any interest in NGC, the Controlling Group still holds equity interests together in NMED and NGID;

(b) they have had an arrangement ("Controlling Group Arrangement") since 1 January 2004, pursuant to which discussions would be held amongst the Controlling Group to arrive at consensus on material voting and/or business decisions (including financial and operating policies) of the Group and by virtue of such arrangement, Mr. Pan Jinhong, Mr. Liu Xuezhong and Ms. Li Yuelan have entrusted the Management Shareholders to manage the Group throughout the Track Record Period;

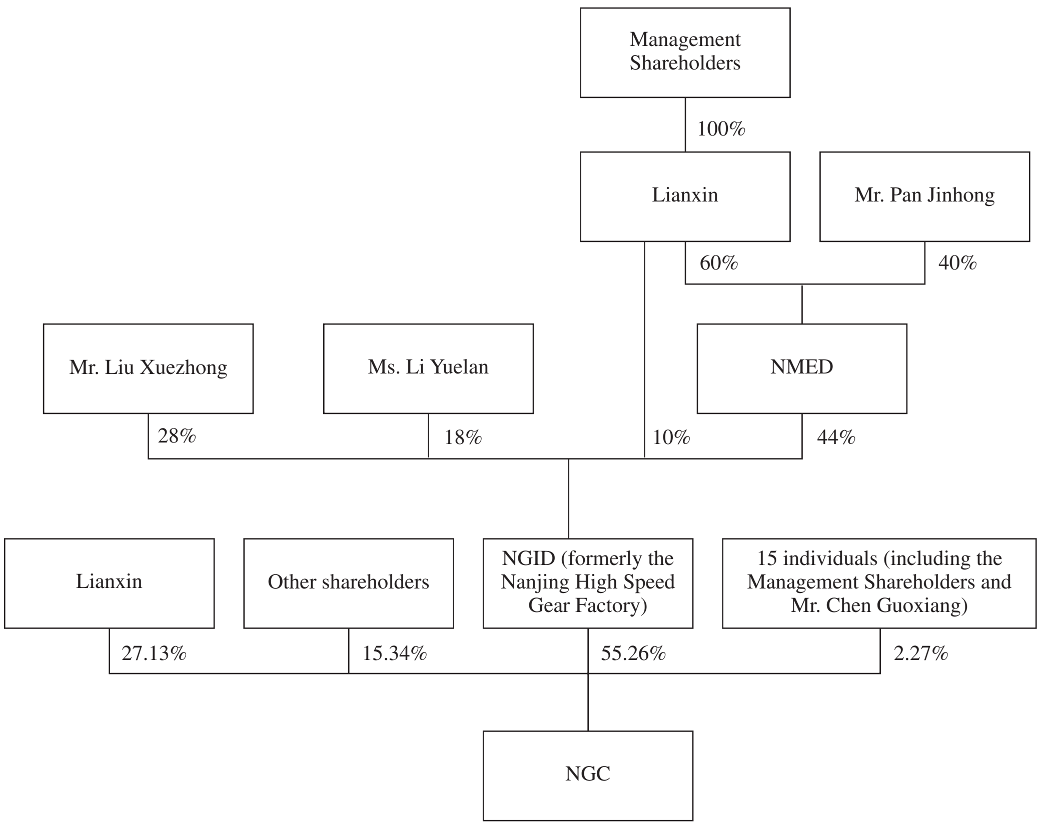
(c) the exercise of the voting rights at the general meetings of NMED, NGID and NGC by all the members of the Controlling Group has been consistent since the beginning of the Track Record Period; and

(d) the Controlling Group (holding approximately 45.60% shareholdings in aggregate after the Listing assuming the Over-allotment Option is not exercised) has entered into the Pre-emptive Rights Agreement relating to, inter alia, the disposal and acquisition of the Shares by the members of the Controlling Group after the Listing, pursuant to which each member of the Controlling Group shall, inter alia, have right of first refusal to purchase Shares from the other members of the Controlling Group with effect from the Listing in accordance with the Pre-emptive Rights Agreement.

The Controlling Group had, since 26 February 2004, directly or indirectly, controlled more than 50% voting rights in aggregate in NGC and become the controlling shareholder of NGC. Upon completion of the Global Offering and assuming the Over-Allotment Option is not exercised, the Controlling Group will indirectly own an aggregate shareholding of 45.60% in the Company (as to 27.45% by the Management Shareholders (acting through Fortune Apex), 5.02% by Mr. Pan Jinhong (acting through Wiaearn) and 13.13% by Mr. Liu Xuezhong and his wife Mr. Li Yuelan (acting through Luckever)). Please refer to "Substantial Shareholders — Relationship with our Controlling Shareholders" for further details of the Controlling Group Arrangement and the Pre-emptive Rights Agreement.

Further, upon completion of the transfer as set out in step 6 in the table on page 80, namely on 30 December 2004, NMED, and hence NGID and NGC, were fully privatised and ceased to be State-owned enterprises.

The chart below illustrates the effective historical changes in the shareholdings of NGID and NMED upon completion of step 9 in the table on page 80:



The above share transfers where sales of State-owned interests were involved were effected via public auctions conducted through the Nanjing Assets and Equity Exchange (南京產權交易中心), an organisation which provides a platform for the sale and purchase of assets or equity interests in Nanjing whose establishment has been approved by the Nanjing Municipal Government. To the extent that the transfer involved State-owned assets, the consideration was determined by reference to the value of the subject company reported to the State-owned Assets Supervision and Administration Department of the Nanjing Municipal Government. The PRC Legal Advisers have confirmed that the various transfers of interests in NGID and NMED, including the transformation of NMED (and hence NGID and NGC) from a State-owned enterprise to a private company, complied with all applicable laws and regulations in the PRC and that all necessary approvals were obtained.

(ii) *Directly at the level of NGC*

In July 2004, with a view to increasing the shareholding of the Management Shareholders in NGC, NGC issued 20,000,000 new shares to Lianxin, a PRC company controlled by the Management Shareholders, at a consideration of RMB1.68 per share, based on the then net asset value per share. Such subscription was funded by the Management Shareholders. According to the relevant PRC laws and regulations, no asset appraisal by a third party PRC asset appraisal firm was necessary for such issuance of new shares to Lianxin. Such new shares accounted for 25% of the then outstanding shares of NGC. As a result thereof, NGC was held as to 25% by Lianxin, 55.26% by NGID, 1.76% by Wenjing, 2.20% by Yinxiang, 4.32% by Jiangsu VC, 2.13% by Dahe, 3.53% by Suzhou VC, 3.53% by Union Strong and 2.27% by 15 individual shareholders (including the Management Shareholders and Mr. Chen Guoxiang, an independent individual).

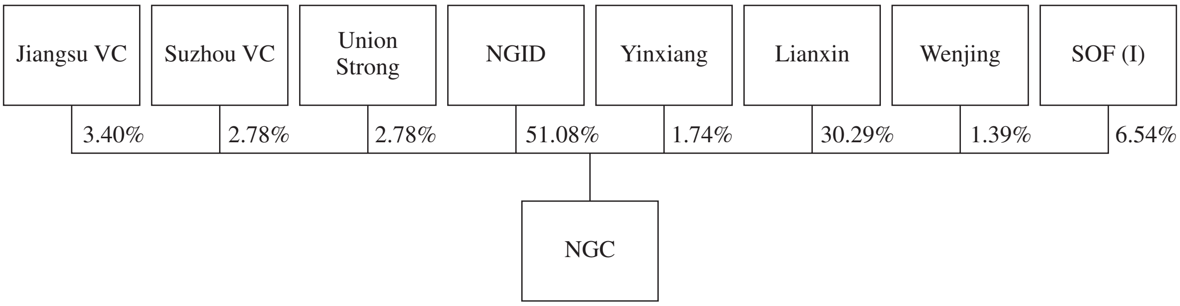
In December 2004, with a view to further increasing the shareholding of the Management Shareholders in NGC, Lianxin acquired a 2.13% equity interest in NGC from Dahe at a consideration of RMB5,950,000 and financed by the profits distributed by NGC to Lianxin for the year ended 31 December 2004, increasing its shareholding in NGC to 27.13%. The consideration was arrived at after arm's length negotiations between the parties. As a result thereof, NGC was held as to 27.13% by Lianxin, 55.26% by NGID, 1.76% by Wenjing, 2.20% by Yinxiang, 4.32% by Jiangsu VC, 3.53% by Suzhou VC, 3.53% by Union Strong and 2.27% by 15 individual shareholders (including the Management Shareholders and Mr. Chen Guoxiang, an independent individual).

In September 2005, to facilitate the introduction of foreign investors, NGC's shareholders converted the company from a joint stock company into a limited liability company, leaving its shareholding structure unchanged.

On 27 October 2005, the registered capital of NGC was further increased from RMB80,000,000 to RMB101,537,300, of which Lianxin contributed RMB13,875,260 and NGID contributed the remaining RMB7,662,040, satisfied by the amount paid by NGC to Lianxin and NGID for the transfer of equity interest in Nanjing High Speed by Lianxin and NGID to NGC in October 2005 (as described in step 3 in the table on page 86). As a result thereof, NGC was held as to 35.04% by Lianxin, 51.08% by NGID, 1.39% by Wenjing, 1.74% by Yinxiang, 3.40% by Jiangsu VC, 2.78% by Suzhou VC, 2.78% by Union Strong, and 1.79% by 15 individual shareholders (including the Management Shareholders and Mr. Chen Guoxiang, an independent individual).

In November 2005, with a view to centralising the interest in NGC held by the Management Shareholders through Lianxin, Lianxin purchased all of the equity interest in NGC held by the 15 individuals (including the Management Shareholders and Mr. Chen Guoxiang, an independent individual) at an aggregate consideration of RMB2,580,000 which represented 1.79% of NGC's then registered capital. The consideration was satisfied by the fundings obtained by Lianxin from the increase in registered capital in Lianxin contributed by its shareholders, namely the Management Shareholders. The consideration was arrived at after arm's length negotiations between the parties. As a result, NGC was held as to 36.83% by Lianxin, 51.08% by NGID, 1.39% by Wenjing, 1.74% by Yinxiang, 3.40% by Jiangsu VC, 2.78% by Suzhou VC and 2.78% by Union Strong.

In December 2005, SOF(I) purchased a 6.54% equity interest in NGC from Lianxin for US$5,000,000 which was determined based on the appraised net asset value of NGC as at 31 October 2005, pursuant to which NGC was converted into a Sino-foreign joint venture with less than 25% foreign investment. The shareholding structure of NGC after the aforesaid transactions is set out below:



In December 2005, our Company acquired 91% equity interest of NGC from its then shareholders. In August 2006, our Company further acquired the remaining 9% equity interest in NGC and NGC has become a wholly-owned subsidiary of our Company since then. Please refer to page 90 for further details.

The PRC Legal Advisers have confirmed that the various transfers of interests in NGC complied with all applicable laws and regulations in the PRC and all necessary approvals were obtained.

The Management Shareholders have been involved in the management of NGC throughout the Track Record Period as all the executive directors of NGC are certain members of the Management Shareholders (namely Mr. Hu Yueming, Mr. Liu Jianguo, Mr. Lu Xun, Mr. Chen Yongdao, Mr. Li Cunzhang, and Mr. Li Shengqiang).

Nanjing High Speed

Besides NGC, Nanjing High Speed is another principal subsidiary of the Company. Nanjing High Speed was established in the PRC as a limited liability company on 8 July 2003. Nanjing High Speed is currently an indirect wholly-owned subsidiary of our Company. A summary of the historical changes in the shareholding of Nanjing High Speed is set out below:

Step	Date	Relevant event	Reasons for the relevant event	Consideration	Method of financing	Basis of calculating the consideration	Shareholding in Nanjing High Speed
1	8 July 2003	Establishment of Nanjing High Speed by NGC, Nanjing High Speed Gear Factory (now known as NGID) and nine individuals (all of whom are members of the Management Shareholders and seven of whom are also executive Directors, namely Mr. Hu Yueming, Mr. Liu Jianguo, Mr. Lu Xun, Mr. Li Cunzhang, Mr. Chen Yongdao, Mr. Li Shengqiang and Mr. Liao Enrong)	Establishment of Nanjing High Speed	RMB61,000,000 (registered capital)	Funded by NGC, Nanjing High Speed Gear Factory (now known as NGID) and the nine individuals	Based on negotiation between the parties	NGC: 50.164% Nanjing High Speed Factory (now known as NGID): 20.656% Nine individuals: 29.180%
2	22 August 2005	Lianxin (a company controlled by the Management Shareholders) acquired the equity interests in Nanjing High Speed held by the nine individuals	To facilitate the holding of such equity interests in Nanjing High Speed by all the Management Shareholders through Lianxin	RMB17,800,000	Funded by Lianxin	Based on negotiation between the parties	NGC: 50.164% NGID: 20.656% Lianxin: 29.180%
3	26 October 2005	Lianxin transferred 24.180% equity interests in Nanjing High Speed to NGC	To facilitate the Group's management and centralise the control of Nanjing High Speed through NGC	RMB14,750,000	Funded by NGC and Ningjiang	Based on negotiation between the parties	NGC: 95%
		NGID transferred 20.656% equity interests in Nanjing High Speed to NGC		RMB12,600,000			Ningjiang: 5%
		Lianxin transferred 5% equity interests in Nanjing High Speed to Ningjiang		RMB3,050,000			

Step	Date	Relevant event	Reasons for the relevant event	Consideration	Method of financing	Basis of calculating the consideration	Shareholding in Nanjing High Speed
4	22 February 2006	Investment in Nanjing High Speed by NGID, Lianxin, Yinxiang and Wenjing in the aggregate amount of RMB107,706,730	NGID, Lianxin, Yinxiang and Wenjing injected the proceeds obtained from the transfer of their equity interest in NGC to the Company (as described on page 90) to Nanjing High Speed	RMB616,161.6 (increased in registered capital) RMB107,090,568.4 (increase in reserve)	Proceeds obtained from the transfer of equity interest in NGC to the Company	Based on negotiation between the parties	NGC: 94.05% Ningjiang: 4.95% NGID: 0.6045% Lianxin: 0.3585% Yinxiang: 0.0206% Wenjing: 0.0164%
5	25 March 2006	NGID, Lianxin, Yinxiang and Wenjing transferred their equity interests in Nanjing High Speed to NGC	To facilitate the Group's management and centralise the control of Nanjing High Speed through NGC	RMB1.00 (in respect of each transfer)	Funded by NGC	Based on negotiation between the parties	NGC: 95.05% Ningjiang: 4.95%
6	8 October 2006	Investment in registered capital of Nanjing High Speed by Lianxin in the amount of RMB15,866,714	Lianxin injected the proceeds obtained from the transfer of its equity interests in NGC to the Company (as described on page 90) to Nanjing High Speed	RMB1,000,000 (increased in registered capital) RMB14,866,713.86 (increased in reserve)	Proceeds obtained from the transfer of interest in NGC to the Company	Based on negotiation between the parties	NGC: 94.1089% Ningjiang: 4.9010% Lianxin: 0.9901%
7	24 October 2006	Lianxin transferred its equity interests in Nanjing High Speed to NGC	To facilitate the Group's management and centralise the control of Nanjing High Speed through NGC	RMB874,844.07	Funded by NGC	Based on unaudited net book value of Nanjing High Speed as of 31 May 2006	NGC: 95.099% Ningjiang: 4.901%

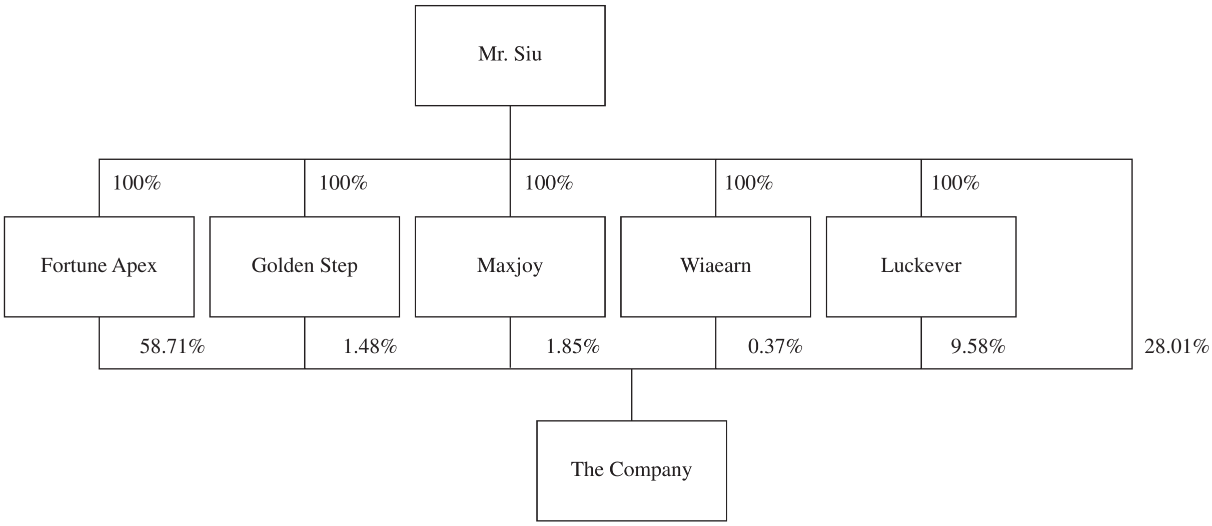
Upon completion of the above transfers, Nanjing High Speed became an indirect wholly-owned subsidiary of the Company through NGC and Ningjiang. The PRC Legal Advisers have confirmed that the various transfers of interests in Nanjing High Speed complied with all applicable laws and regulations in the PRC and that all necessary approvals were obtained.

The Management Shareholders have been involved in the management of Nanjing High Speed throughout the Track Record Period as all the executive directors of Nanjing High Speed are members of the Management Shareholders (namely Mr. Hu Yueming, Mr. Liu Jianguo, Mr. Lu Xun, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Li Shengqiang and Mr. Liao Enrong).

REORGANISATION

Formation of the offshore entity

The Company was incorporated in the Cayman Islands on 22 March 2005. As at the time of the incorporation of the Company, the Company was owned by Fortune Apex, Golden Step, Maxjoy, Wiaearn and Luckever ("BVI Companies") and Mr. Siu Sing Foon ("Mr. Siu"). The BVI Companies were wholly-owned by Mr. Siu. The following diagram sets out the shareholding structure of the Company as of 22 March 2005:



Transfer of Shares by Mr. Siu

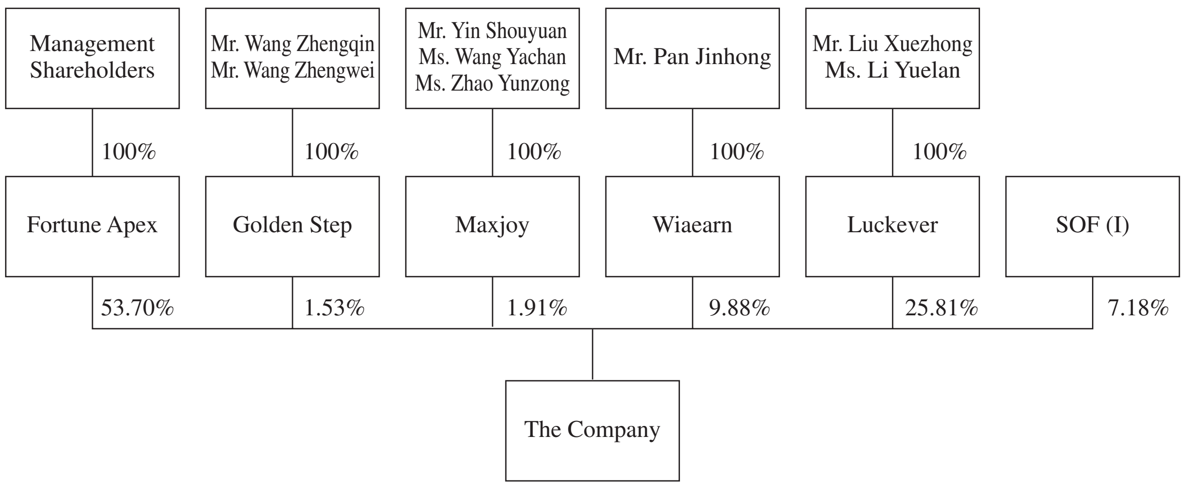
As a result of changes in the shareholdings in NGC after March 2005 as disclosed in the paragraph headed "Increases in the shareholdings of the Controlling Group in NGC" above, the following transfers of the Shares were made in order to reflect the then attributable interests in NGC owned by the Management Shareholders, Mr. Wang Zhengqin, Mr. Wang Zhengwei, Mr. Yin Shouyuan, Ms. Wang Yachan, Ms. Zhao Yunzong, Mr. Pan Jinhong, Mr. Liu Xuezhong, Ms. Li Yuelan and SOF(I) immediately before the acquisition of approximately 91% interest in NGC by our Company in December 2005. On 28 November 2005, Mr. Siu transferred all the Shares then directly held by him to Luckever, Wiaearn and SOF(I), representing 16.23%, 4.60% and 7.18%, respectively, of the then issued share capital of our Company, at a consideration of US$1, US$1 and US$71.84, respectively. On the same day, Fortune Apex transferred part of the Shares then held by it to Wiaearn, Maxjoy and Golden Step, representing 4.91%, 0.06% and 0.05%, respectively, of the then issued share capital of our Company, at a consideration of US$1 per transfer. On 1 December 2005, Mr. Siu transferred all his shares in Fortune Apex, Golden Step, Maxjoy, Wiaearn and Luckever to the Management Shareholders (for Fortune Apex), Mr. Wang Zhengqin and Mr. Wang Zhengwei (for Golden Step), Mr. Yin Shouyuan, Ms. Wang Yachan and Ms. Zhao Yunzong (for Maxjoy), Mr. Pan Jinhong (for Wiaearn) and Mr. Liu Xuezhong and Ms. Li Yuelan (for Luckever) at a consideration of US$1,000.36, US$1,000, US$1,000, US$100 and US$100, respectively.

Other than the consideration for the transfer of Shares by Mr. Siu to Luckever and Wiaearn and by Fortune Apex to Wiaearn, Maxjoy and Golden Step, being US$1.00 per transfer, all the above transfers of Shares or shares in the BVI Companies were based on the par value of the Shares, or the shares of the BVI Companies, as the case may be. At the time of the above transfers, our Company and all the BVI Companies were shell companies without any assets and did not conduct any trading or other business activities. Accordingly, all such transfers were based on nominal consideration.

Upon completion of such transfers, Mr. Siu was no longer a shareholder of our Company or any of the BVI Companies. Mr. Siu also resigned as a director of our Company and the BVI Companies on 1 December 2005.

At the time when Mr. Siu was a shareholder and director of our Company and the BVI Companies, the Company and the BVI Companies were shell companies without any assets and did not conduct any trading or other business activities. Accordingly, Mr. Siu has never assumed any roles and responsibilities with the Group, save for being: (i) a Director until 1 December 2005; and (ii) until 23 August 2006, a director of Eagle Nice Holdings Limited and Goodgain Group Limited, two shell companies incorporated in the BVI and wholly-owned by our Company and both of which remained inactive and have not owned any assets or conducted any trading or other business activities during the period when Mr. Siu was a director of such two BVI subsidiaries. Save as disclosed above, Mr. Siu is an independent third party.

The following diagram sets out the shareholding structure of our Company upon completion of the aforesaid transfers:



Registration based on SAFE Notice 75

The PRC State Administration of Foreign Exchange, or SAFE, issued the Notice on Relevant Issues Concerning the Administration of Foreign Exchange for PRC Residents to Engage in Financing and Inbound Investment via Overseas Special Purpose Vehicles (關於境內居民通過境外特殊目的公司融資及返程投資外匯管理有關問題的通知), or SAFE Notice 75 (國家外匯管理局第75號通知), on 21 October 2005. Under the notice, (i) a PRC resident must register with the relevant local branch of SAFE before it establishes or controls an overseas special purpose vehicle, or SPV, for the purpose of overseas equity financing; (ii) when a PRC resident contributes the assets of or its equity interests in a domestic enterprise to a SPV, or engages in overseas financing after contributing assets or equity interests to a SPV, such PRC resident must register his or her interest in the SPV and the changes thereof with the relevant local branch of SAFE; and (iii) where there is any change to the SPV, such as a change in share capital or merger and acquisition, the PRC resident must, within 30 days from the occurrence of the change, register the change with the relevant local branch of SAFE.

In November 2005, the PRC individuals who are shareholders of the aforementioned BVI companies completed the registration of their respective overseas investment with the Jiangsu Branch of SAFE in accordance with the relevant requirements prescribed under the SAFE Notice 75.

Acquisition of the 91% Interest in NGC by the Company

In December 2005, the Company acquired an aggregate of 91% of the equity interest in NGC held by NGID, Lianxin, Yinxiang, Wenjing and SOF(I), for cash consideration of approximately RMB133 million. Therefore, the Company became the ultimate holding company of NGC. As a result, the share premium and other reserves in the Group's accounts in 2005 were eliminated upon the Reorganisation and the share capital was reduced accordingly.

Introduction of Pre-IPO Investors as private equity investors

In January 2006, the Company issued the Convertible Bonds to the Pre-IPO Investors. The Company used the proceeds from the issue of the Convertible Bonds to settle the consideration payable for the acquisition of 91% equity interest in NGC in December 2005 (as described in the preceding paragraph) and to increase the capital base of NGC.

The principal terms of the Convertible Bonds are summarised as follows:

- By way of the Subscription Agreement, DPF, Templeton and VPL Funds/Sub-Funds would subscribe at par for the Convertible Bonds in the amounts of US$7,500,000, US$7,500,000 and US$13,000,000, respectively (the Convertible Bonds were subsequently issued to these parties on 26 January 2006).

- The maturity date of the Convertible Bonds would be 25 January 2010, unless previously redeemed, converted, repurchased or cancelled.

- The Convertible Bonds 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 in each interest period.

- The Convertible Bonds would be subject to: (i) optional conversion at any time prior to the maturity date at the option of the Pre-IPO Investors; and (ii) automatic conversion on the Listing Date or such earlier and time as may be desirable and necessary for facilitating completion of the Listing.

Buy-out of remaining equity interest in NGC

With a view to buying out the remaining equity interest in NGC in preparation for the Global Offering, from December 2005 to October 2006, the Company purchased all of the remaining equity interest (approximately 9%) in NGC from Wise-Win and Lianxin, details of which are set out below:

- In July 2006, Wise-Win acquired approximately 3.40% and 2.78% (or 6.18% in aggregate) equity interest in NGC from Jiangsu VC and Suzhou VC for a consideration of RMB13,798,004 and RMB11,263,743, respectively. The consideration was determined by reference to the then appraised net value of NGC as appraised by Jiangsu Five Star Asset Appraisal Co., Ltd. (江蘇五星資產評估有限責任公司) ("Five Star Appraisal"), a third party independent firm and not connected with the chief executive, directors or substantial shareholders of the Company and its subsidiaries and their respective associates. Wise-Win is a wholly-owned subsidiary of Jiangsu VC. With a view to buying out the remaining equity interest in NGC in preparation for the Global Offering, in August 2006, the Company acquired such equity interest in NGC from Wise-Win for a consideration of US$1,390,000, which was determined after arm's length negotiations between the parties and financed by the dividends distributed by NGC to the Company for the six months ended 30 June 2006, and Wise-Win used the proceeds to subscribe for 6,793 Shares (equivalent to approximately 6.36% of the then outstanding Shares as enlarged by such issue) of the Company.

- In July 2006, Lianxin acquired approximately 2.78% equity interest in NGC from Union Strong for a consideration of RMB13,000,000. The consideration was determined by reference to the then appraised net value of NGC. With a view to buying out the remaining equity interest in NGC in preparation for the Global Offering, in August 2006, the Company acquired such equity interest in NGC from Lianxin for a consideration of RMB13,000,000. The consideration was also determined by reference to the then appraised net value of NGC as appraised by Five Star Appraisal.

The PRC Legal Advisers have confirmed that the above transfers of interests in NGC complied with all applicable laws and regulations in the PRC and that all necessary approvals were obtained.

As a result of the above, NGC became a wholly-owned subsidiary of the Company. An amount of RMB16.4 million, being the difference between the total consideration paid and the net asset value of the equity interest in NGC acquired by the Company from Wise-Win and Lianxin has been credited to the capital reserve of the Company.

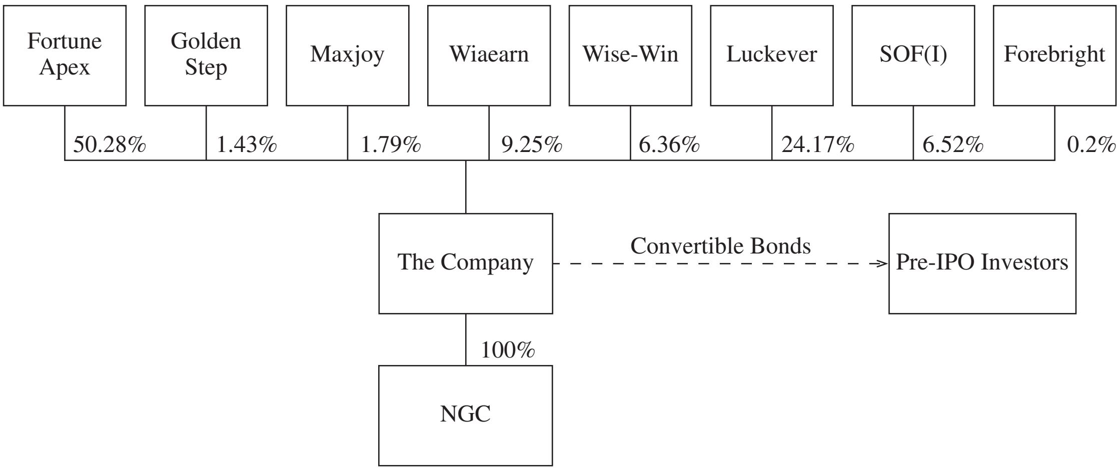
Remaining business of NGID

After the disposal of its interest in NGC, NGID holds equity interests in two associated companies, the businesses of which do not compete with that of the Group. NGID also owns a property in Nanjing which is leased to Yongte, a subsidiary of the Company. The lease constitutes a connected transaction of the Company under the Listing Rules. Please refer to the section headed "Connected Transactions" of this prospectus for further details. Save as disclosed above and to the best of our knowledge, information and belief, having made due and careful enquiries, NGID does not carry on any other business following the disposal of its interest in NGC.

Other transfer

On 29 June 2006, SOF(I) transferred 216 Shares, constituting approximately 0.2% of the then issued share capital of the Company, to Forebright for a consideration of US$15,000. Forebright is a company incorporated in the BVI and controlled by members of the management of SOF(I).

The following diagram sets out the shareholding structure of the Company immediately after completion of the buy-out of remaining equity interest in NGC and the transfer of Shares from SOF(I) to Forebright (assuming no conversion of the then outstanding Convertible Bonds into Shares):



Conversion of the Convertible Bonds

As agreed between the Company and the Pre-IPO Investors, the Convertible Bonds held by the Pre-IPO Investors were fully converted into Shares in the Company on 22 December 2006 in accordance with the terms of a conversion agreement entered into on the same date between the Pre-IPO Investors, the then existing Shareholders and the Company. Pursuant to such conversion agreement, DPF, Templeton and VPL Funds/Sub-Funds converted all of their Convertible Bonds of US$7,500,000, US$7,500,000 and US$13,000,000 into 10,319 Shares, 10,319 Shares and 17,885 Shares, respectively (without taking into account their respective entitlements to the Capitalisation Issue).

The effective cost per share, after being adjusted to take into account the transfer of MPR Consideration Shares and the entitlements to the Capitalisation Issue, is US$0.13789, representing a discount of 80.0% (based on the Offer Price of HK$5.38) and 84.8% (based on the Offer Price of HK$7.08) to the Offer Price respectively.

Transfer of the MPR Consideration Shares

Upon the conversion of the Convertible Bonds, the then existing shareholders further executed a mandatory purchase agreement ("MPR Agreement") with the Pre-IPO Investors on 22 December 2006.

Pursuant to the MPR Agreement, in consideration for each of the Pre-IPO Investors agreeing to transfer to the Grantors (as defined below) 4,010 Shares ("MPR Consideration Shares"), the then existing Shareholders (other than SOF(I) and Forebright) ("Grantors") severally granted to each of the Pre-IPO Investors a mandatory purchase right to require the Grantors to purchase the Shares held by the Pre-IPO

Investors in accordance with the terms and conditions thereof. Such mandatory purchase will take place on the 30th business day following 26 January 2010, but will lapse upon the initial public offering ("IPO") of the Company if such IPO takes place on or prior to 26 January 2010 pursuant to the terms and conditions of the MPR Agreement.

Introduction of GE Capital as a strategic investor

Our products have been sold to GE since 2004 and we have been chosen as a qualified supplier by GE to participate in its global supply chain since 2005. On 8 February 2007, we entered into the GE Subscription Agreement whereby GE Capital subscribed for 7,648 Shares for a consideration of US$8,500,000, accounting for 5% of the then total issued share capital of the Company as enlarged by such issue.

Shareholders' Agreement amongst the existing Shareholders on 8 February 2007

The Company and each of the existing Shareholders (namely Fortune Apex, Wiaearn, Luckever, Maxjoy, Golden Step, Wise-Win, SOF(I), Forebright, DPF, New VPL Funds/Sub-Funds, Templeton and GE Capital) executed the Shareholders' Agreement to, among other matters, regulate their respective rights and obligations as Shareholders. Pursuant to the Shareholders' Agreement, some existing Shareholders were granted special rights (including the right to nominate Director(s), right to nominate members of each of the audit and remuneration committees, general information rights, pre-emptive rights, co-sale rights and, in respect of GE Capital, the right to subscribe for Shares under the Global Offering). All such special rights as provided for in the Shareholders' Agreement shall lapse upon the Listing. Please refer to the section headed "Business — Group Structure" for further details of the major special rights of each of the existing Shareholders pursuant to the Shareholders' Agreement.

Pursuant to the Shareholders' Agreement, each of the then Shareholders also agreed to each other that, subject to the applicable laws and regulations, it would not dispose of any of its Shares or any interest therein for a period of six months from Listing.

Pre-emptive Rights Agreement amongst members of the Controlling Group

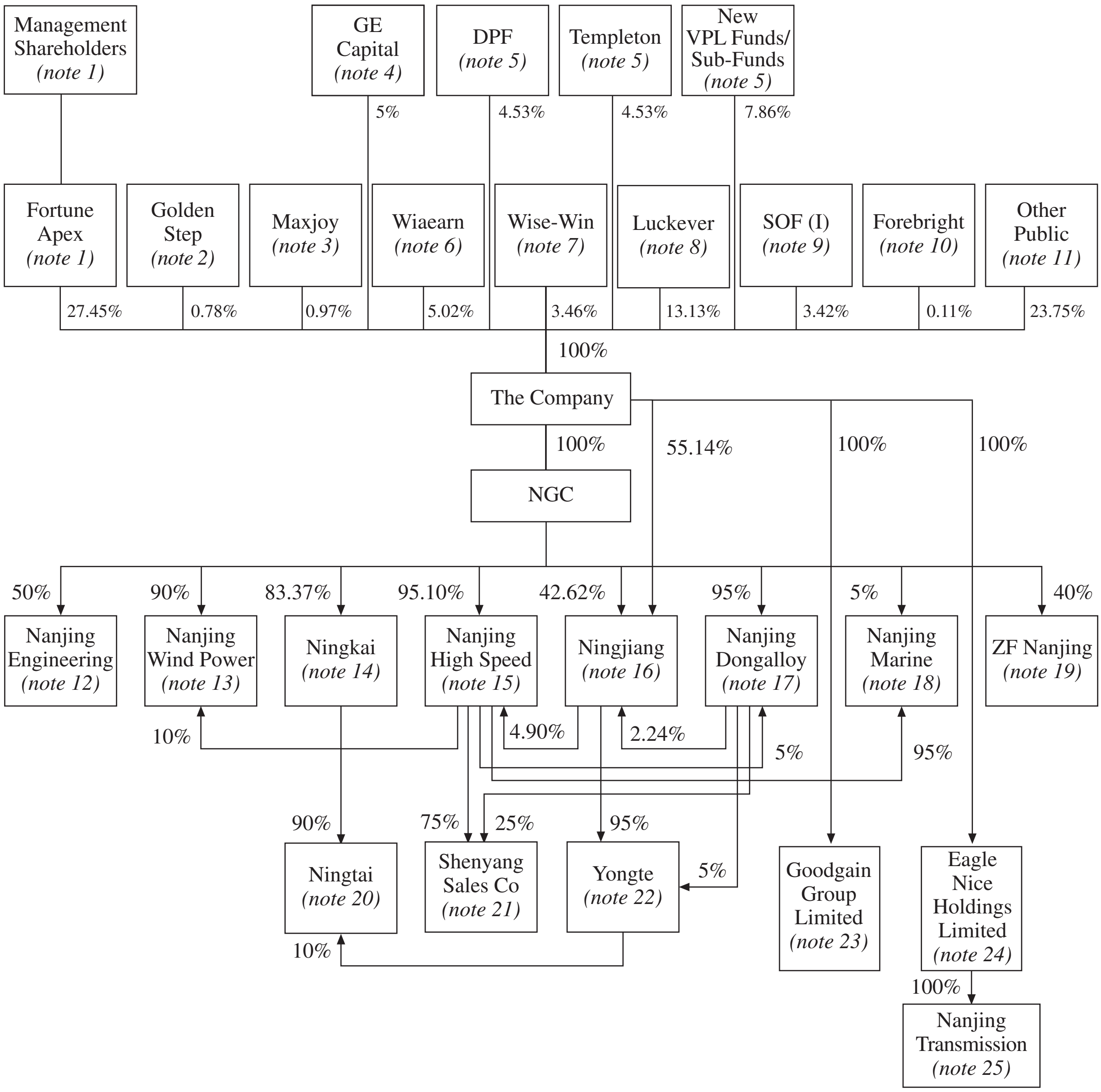
On 8 June 2007, members of the Controlling Group entered into the Pre-emptive Rights Agreement with effect from the Listing in order to consolidate their control over the Company. Each member of the Controlling Group, shall, amongst other things, have right of first refusal to purchase Shares from other members of the Controlling Group in accordance with the agreement. The Pre-emptive Rights Agreement shall terminate upon the third anniversary of the Listing Date. The price and terms for the purchase of Shares pursuant to the exercise of pre-emptive rights shall be determined by reference to (i) in respect of a proposed off-market disposal, the price and terms offered to or by third party(ies); or (ii) in respect of a proposed on-market disposal, the closing price on the trading day preceding the proposed date of disposal. Please refer to the section headed "Substantial Shareholders — Relationship with our Controlling Shareholders" of this prospectus for further details.

Compliance with the PRC laws and regulations

The PRC Legal Advisers confirmed that the various transfers of interest in the Company and its subsidiaries, the transformation of NGID from a State-owned enterprise into a limited liability company and the reorganisation complied with the applicable PRC laws and regulations.

GROUP STRUCTURE

The following chart sets out the structure of our Group immediately following completion of the Global Offering, assuming the Over-allotment Option is not exercised.



Notes:

(1) Fortune Apex Limited, or Fortune Apex, is a BVI company wholly-owned by the Management Shareholders. Fortune Apex is a member of the Controlling Group. Pursuant to the Shareholders' Agreement, Fortune Apex is entitled to the following major special rights which will lapse upon Listing: (a) right to nominate seven Directors. As at the Latest Practicable Date, Fortune Apex had exercised such right by nominating seven executive Directors to the Board; (b) general information rights; and (c) pre-emptive rights and co-sale rights relating to the transfer of Shares. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex:

	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%

Save for Fortune Apex, which is owned and controlled by the Management Shareholders, the other Shareholders are considered "passive investors" during the Track Record Period as they have not participated in the daily management and operation of the Group. Prior to Listing, the Shareholders (other than the Management Shareholders, Mr. Liu Xuezhong and his wife Ms. Li Yuelan, and Mr. Pan Jinhong, who together constitute the Controlling Group) have had their influence on the management by exercising their voting rights in the general meeting of the Company and NGC and nominating non-executive director(s) to the respective board of directors of the Company and NGC. Save as disclosed above, the Shareholders (other than the Controlling Group) have not had any influence on the decisions made by the Management Shareholders in the past. For further information of the Controlling Group, please refer to the section headed "Substantial Shareholders - Relationship with our controlling shareholders" of this prospectus.

(2) Golden Step Group Limited, or Golden Step, is a BVI company wholly-owned and controlled by Mr. Wang Zhengqin and Mr. Wang Zhengwei. Golden Step and its shareholders are independent of, and not connected with, the Management Shareholders, the chief executive, the directors and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Golden Step is considered to be a member of the public under the Listing Rules. Pursuant to the Shareholders' Agreement, Golden Step is entitled to the following major special rights which will lapse upon Listing: (a) general information rights; and (b) pre-emptive rights and co-sale rights relating to the transfer of Shares.

(3) Maxjoy Holdings Limited, or Maxjoy, is a BVI company wholly-owned and controlled by Mr. Yin Shouyuan, Ms. Wang Yachan and Ms. Zhao Yunzong. Maxjoy and its shareholders are independent of, and not connected with, the Management Shareholders, the chief executive, the directors and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. Maxjoy is considered to be a member of the public under the Listing Rules. Pursuant to the Shareholders' Agreement, Maxjoy is entitled to the following major special rights which will lapse upon Listing: (a) general information rights; and (b) pre-emptive rights and co-sale rights relating to the transfer of Shares.

(4) On the assumption that the Over-allotment Option is not exercised and that 15,000,000 Shares ("Additional GE Shares") are fully allotted and issued to GE Capital pursuant to the subscription right provision in the GE Subscription Agreement and the Shareholders' Agreement as more particularly described in the section headed "Our relationship with GE — Investment in our Company by GE Capital", GE Capital will hold 5% of our issued share capital upon completion of the Global Offering. If such 15,000,000 Shares are not allotted and issued to GE Capital at all, the interests of GE Capital in the Company upon completion of the Global Offering and on the assumption that the Over-allotment Option is not exercised will be approximately 3.75%. GE Capital is considered to be a member of the public under the Listing Rules. Pursuant to the Shareholders' Agreement, GE Capital is entitled to the following major special rights which will lapse upon Listing: (a) the aforesaid Subscription Right to subscribe for at least 5% of the Shares offered under the Global Offering to the extent permitted by applicable law and applicable stock exchange rules; (b) general information rights; and (c) pre-emptive rights and co-sale rights relating to the transfer of Shares. On 15 June 2007, GE Capital has undertaken to the Global Co-ordinator and us that it will exercise the Subscription Right in full to subscribe for the Additional GE Shares at the Offer Price. However, the Global Co-ordinator shall have the sole discretion to decide whether to allocate the Additional GE Shares to GE Capital, or at all.

(5) DPF, Templeton and the New VPL Funds/Sub-Funds are Pre-IPO Investors who invested US$7,500,000, US$7,500,000 and US$13,000,000 respectively in the Company. Please refer to the section headed "Business — Reorganisation — Introduction of Pre-IPO Investors as private equity investors" for further details. DPF, Templeton and New VPL Funds/Sub-Funds are considered to be members of the public under the Listing Rules. Pursuant to the Shareholders' Agreement:

(i) DPF is entitled to the following major special rights which will lapse upon Listing: (a) right to nominate two Directors and two directors of NGC. Mr. Wang Qi, being a non-executive Director and a non-executive director of NGC, has been nominated by DPF. DPF has confirmed that it will not exercise the right to nominate another person to the Board and the board of NGC before Listing; (b) right to nominate one member to the audit committee. Mr. Wang Qi has been nominated by DPF to the audit committee; (c) right to nominate one member to the remuneration committee. No existing member of the remuneration committee has been nominated by DPF. DPF has confirmed that it will not exercise the right to nominate any member of the remuneration committee before Listing; (d) general information rights; and (e) pre-emptive rights and co-sale rights relating to the transfer of Shares;

(ii) Templeton is entitled to the following major special rights which will lapse upon Listing: (a) right to nominate one Director and one director of NGC. Mr. Richard Andrew Cornish Piliero, being a non-executive Director and a non-executive has been nominated by Templeton; (b) right to nominate one member to the audit committee and the remuneration committee. No existing member of the audit committee and remuneration committee has been nominated by Templeton. Templeton has confirmed that it will not exercise the right to nominate any member of the audit committee and remuneration committee before Listing; (c) general information rights; and (d) pre-emptive rights and co-sale rights relating to the transfer of Shares; and

(iii) New VPL Funds/ Sub-Funds are entitled to the following major special rights which will lapse upon Listing: (a) general information rights; and (b) pre-emptive rights and co-sale rights relating to the transfer of Shares.

(6) Wiaearn Holdings Limited, or Wiaearn, is a BVI company wholly-owned and controlled by Mr. Pan Jinhong. Wiaearn is a member of the Controlling Group. Pursuant to the Shareholders' Agreement, Wiaearn is entitled to the following major special rights which will lapse upon Listing: (a) right to nominate one Director. No existing Director has been nominated by Wiaearn and Wiaearn has confirmed that it will not exercise such right to nominate a Director before Listing; (b) general information rights; and (c) pre-emptive rights and co-sale rights relating to the transfer of existing Shares.

(7) Wise-Win Technology Limited, or Wise-Win, is a company incorporated under the laws of England and Wales. It is owned and controlled by Jiangsu VC, one of the shareholders of NGC before the Reorganisation. Wise-Win is considered to be a member of the public under the Listing Rules. Pursuant to the Shareholders' Agreement, Wise-Win is entitled to the following major special rights which will lapse upon Listing: (a) right to nominate one Director. Mr. Zhang Wei, an existing non-executive Director, has been nominated by Wise-Win; (b) general information rights; and (c) pre-emptive rights and co-sale rights relating to the transfer of Shares.

(8) Luckever Holdings Limited, or Luckever, is a BVI company wholly-owned and controlled by Mr. Liu Xuezhong and Ms. Li Yuelan. Ms. Li Yuelan is the wife of Mr. Liu Xuezhong. Luckever is a member of the Controlling Group. Pursuant to the Shareholders' Agreement, Luckever is entitled to the following major special rights which will lapse upon Listing: (a) right to nominate three Directors. Mr. Zhu Keming, an existing non-executive Director, has been nominated by Luckever and Luckever has confirmed that it will not exercise its right to nominate further two Directors before Listing; (b) general information rights; and (c) pre-emptive rights and co-sale rights relating to the transfer of Shares.

(9) Seabright China Special Opportunities (I) Ltd., or SOF(I), is a close-ended investment company incorporated in the BVI, and is owned by Seabright Asset Management Limited, Trycom Management Limited and 15 other third parties. SOF(I) and its shareholders are independent of, and not connected with, the Management Shareholders, the chief executive, the directors and the substantial shareholders of the Company or any of its subsidiaries or any of their respective associates. SOF(I) is considered to be a member of the public under the Listing Rules. Pursuant to the Shareholders' Agreement, SOF(I) is entitled to the following major special rights which will lapse upon Listing: (a) right to nominate one Director. No existing Director has been nominated by SOF(I) and SOF(I) has confirmed that it will not exercise such special right to nominate one Director before Listing; (b) general information rights; and (c) pre-emptive rights and co-sale rights relating to the transfer of Shares.

(10) Forebright Management Limited, or Forebright, is a company incorporated in the BVI and controlled by members of the management of SOF(I). Forebright is considered to be a member of the public under the Listing Rules. Pursuant to the Shareholders' Agreement, Forebright is entitled to the following major special rights which will lapse upon Listing: (a) general information rights; and (b) pre-emptive rights and co-sale rights relating to the transfer of Shares.

(11) "Other Public" refers to the Shares to be subscribed by the public (other than GE Capital) under the Global Offering.

(12) Nanjing Engineering is not a subsidiary of the Company. It is a jointly controlled entity and owned as to 50% by NGC and as to 50% by independent third parties. Nanjing Engineering is currently inactive.

(13) Nanjing Wind Power is an indirect wholly-owned PRC subsidiary of the Company. It mainly manufactures mechanical transmission equipment and accessories used in wind turbine generators. It is owned as to 90% by NGC and as to 10% by Nanjing High Speed.

(14) Ningkai is an indirect non-wholly owned PRC subsidiary of the Company. It provides rough machining services to NGC. It is currently owned as to 83.37% by NGC and as to 16.63% by Nanjing Saihong Industrial and Trading Co., Ltd (南京賽虹工貿有限公司) ("Nanjing Saihong"), which is independent of, and not connected with, the Management Shareholders, the chief executive, the directors and the substantial shareholders of the Company or any of its subsidiaries (with the exception of Ningkai) or any of their respective associates.

(15) Nanjing High Speed is an indirect wholly-owned PRC subsidiary of the Company. Its products include High-speed Gear Transmission Equipment and Wind Gear Transmission Equipment, etc. It is currently owned as to approximately 95.10% by NGC and as to approximately 4.90% by Ningjiang, another indirect subsidiary of the Company.

(16) Ningjiang is an indirect wholly-owned PRC subsidiary of the Company. It mainly manufactures hard flank mechanical transmission equipment and screw lifting devices. It is owned as to 42.62% by NGC, as to 2.24% by Nanjing Dongalloy and as to 55.14% by the Company.

(17) Nanjing Dongalloy is an indirect wholly-owned PRC subsidiary of the Company. It mainly manufactures components and spare parts for NGC. It is owned as to 95% by NGC and as to 5% by Nanjing High Speed.

(18) Nanjing Marine was established on 2 February 2007 and owned as to 5% by NGC and 95% by Nanjing High Speed. It does not carry out any substantial operations.

(19) ZF Nanjing is not a subsidiary of the Company. It is an associate company and a joint venture of the Group and its products include Marine Gear Transmission Equipment. It is owned as to 40% by NGC and as to 60% by ZF China.

(20) Ningtai is an indirect non-wholly owned PRC subsidiary of the Company. It is owned as to 90% by Ningkai (our non-wholly owned subsidiary) and as to 10% by Yongte. It is engaged in property management.

(21) Shenyang Sales Co is an indirect wholly-owned PRC subsidiary of the Company. It is owned as to 75% by Nanjing High Speed and as to 25% by Nanjing Dongalloy. It is engaged in the sale of mechanical transmission equipment and related products.

(22) Yongte is an indirect wholly-owned PRC subsidiary of the Company. It is owned by Ningjiang as to 95% and Nanjing Dongalloy as to 5%. It is engaged in the manufacture of mechanical transmission equipment and related products.

(23) Goodgain Group Limited and Eagle Nice Holdings Limited are wholly-owned subsidiaries of the Group incorporated in the BVI. They are inactive.

(24) Nanjing Transmission is an indirect PRC subsidiary of the Company. It is wholly-owned by Eagle Nice Holdings Limited and is inactive.

(25) Save for the above or otherwise disclosed in this prospectus, there is no other relationship amongst the existing Shareholders.

Apart from a 23.75% shareholding falling in the public hands as a result of the Global Offering, Golden Step, Maxjoy, GE Capital, DPF, Templeton, New VPL Funds/Sub-Funds, Wise-Win, SOF(I) and Forebright are also regarded as members of the public under the Listing Rules for the following reasons: (i) none of them will be a substantial shareholder or connected person of the Company upon completion of the Global Offering; (ii) save for Mr. Liu Cheng, a non-executive director of NGC and a connected person of the Group, who held approximately 12% shareholding in Forebright as at the Latest Practicable Date, the investment in the Company by each of them has not been, and will not be, financed directly or indirectly by a connected person of the Company; and (iii) none of them is accustomed to taking any instructions from a connected person of the Company in relation to the acquisition, disposal, voting or otherwise disposition of the Shares held and/or to be held by it. Pursuant to the Shareholders' Agreement, each of the existing Shareholders (namely Fortune Apex, Wiaearn, Luckever, Golden Step, Maxjoy, GE Capital, DPF, Templeton, New VPL Funds/Sub-Funds, Wise-Win, SOF(I) and Forebright) agreed to each other that, subject to the applicable laws and regulations, it would not dispose of any of its Shares or any interest therein for a period of six months from Listing.

BUSINESS MILESTONES

The key achievements in our operations are summarised as follows:

Year	Key Achievements
1986	We were awarded a certificate issued by the former State Committee for Science and Technology and other government departments for our prominent contribution to the development of key technologies for gearboxes during the sixth "Five-year Plan"
1988	Our project, "Fundamental Technologies for the High-speed and Heavy-load Mechanical Transmission Equipment", won the First Prize awarded by the former State Committee of Mechanical Industry
1995	We were recognised as a "High and New Technology Enterprise" by the Science and Technology Committee, Nanjing
1997	We obtained ISO9001 certificate for our quality assurance system
1998	Our product ZSJ-2800 Gear Reducer for Coal Mills, was recognised as a National New Product by the former State Committee of Economy and Trade
	Our products, 300 KW and 600 KW series Wind Gear Transmission Equipment were recognised as National Key New Products by the Ministry of Science and Technology and other government departments
1999	We were recognised as a "Model Enterprise for the Implementation of CAD Projects" by the Ministry of Science and Technology
2000	Our Wind Gear Transmission Equipment was awarded a Certificate for Products of High and New Technology by the Administration of Science and Technology of Jiangsu Province
2001	Our "NGC" brand was accredited as a "Famous Brand of Jiangsu Province" by the Committee for the Promotion of Famous Brands of Jiangsu Province from 2001 to now
2005	We were named one of the "Top 500 Companies in the Chinese Machinery Industry" by China Machinery Enterprise Management Association
	NGC was chosen by GE to participate in its global supply chain
2006	We started to manufacture Marine Gear Transmission Equipment and our Wind Gear Transmission Equipment went into mass production

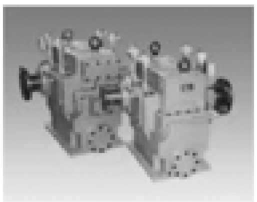
PRODUCTS AND SERVICES

We list below our product categories for the various types of mechanical transmission equipment, generally known as gearboxes, that we manufacture and sell. Our mechanical transmission equipment is applied in a wide range of industries including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining.

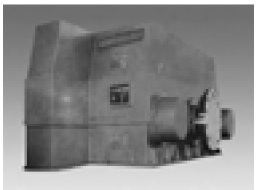
Our products can be categorised in the following seven main product categories:

Product categories

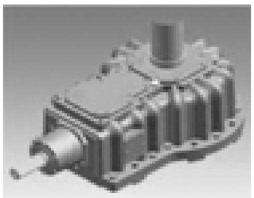
High-speed Series Gear Transmission Equipment



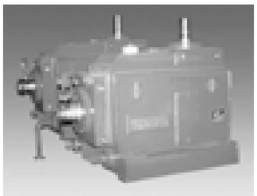
Gear Transmission Equipment for Construction Materials



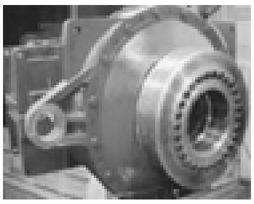
General Purpose Gear Transmission Equipment



Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills



Wind Gear Transmission Equipment



Marine Gear Transmission Equipment

Others

We manufacture mechanical transmission equipment for a variety of other applications, including mechanical transmission equipment for rubber production, mechanical transmission equipment for mixers, mechanical transmission equipment for coupling machines and customised mechanical transmission equipment and related spare parts. We also manufacture spare parts, engineering gears and locomotive gears.

Gear transmission equipment for rubber and plastic manufacturing machinery

Gear transmission equipment for lifting devices

Set out below is a breakdown of our products by sales volume and revenue for the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2006:

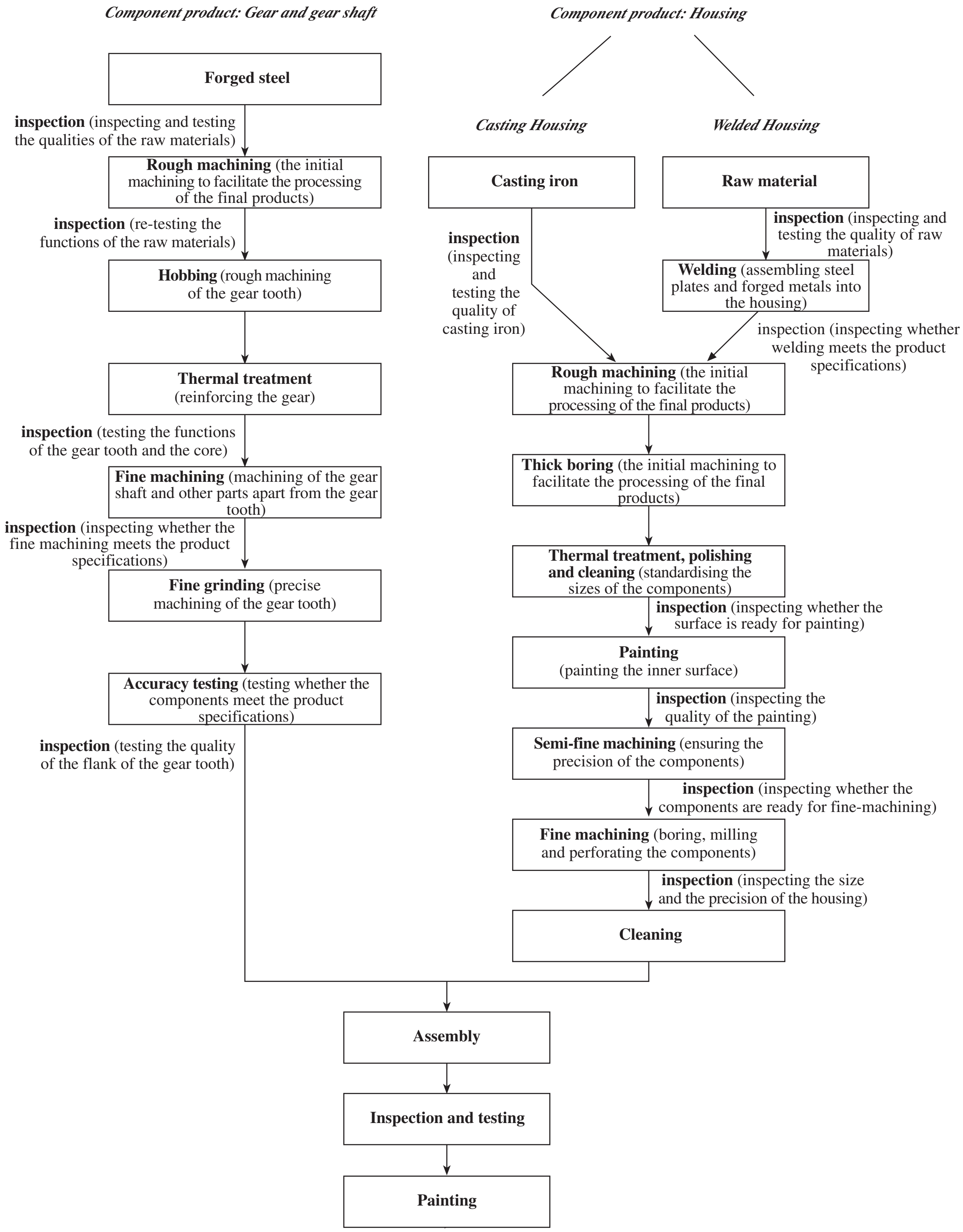
	NGC				The Group											
	For the period from 1 January 2004 to 25 February 2004				For the 2004 Period				For the year ended 31 December 2005				2006			
	Sales volume (tons)	%	Revenue (RMB in thousands)	%	Sales volume (tons)	%	Revenue (RMB in thousands)	%	Sales volume (tons)	%	Revenue (RMB in thousands)	%	Sales volume (tons)	%	Revenue (RMB in thousands)	%
High-speed Series Gear Transmission Equipment	14.7	0.7	974.1	1.2	337.3	1.7	22,682.8	3.3	525.1	2.0	27,518.3	2.9	345.7	1.2	17,713.9	1.5
Gear Transmission Equipment for Construction Materials	1,203.1	52.3	35,118.4	44.2	9,810.8	49.4	285,881.0	41.5	10,691.7	40.5	307,767.5	32.5	6,788.0	24.0	195,434.4	16.5
General Purpose Gear Transmission Equipment	240.4	10.4	9,567.8	12.1	2,017.8	10.1	78,014.4	11.3	2,294.1	8.7	90,198.9	9.5	3,575.0	12.6	139,184.3	11.8
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	613.2	26.6	24,876.9	31.3	3,590.5	18.1	146,052.7	21.2	7,574.6	28.7	301,021.7	31.8	7,137.7	25.2	289,162.5	24.4
Wind Gear Transmission Equipment	—	—	—	—	9.7	0.1	655.9	0.1	388.3	1.4	26,525.6	2.8	4,742.4	16.8	317,743.3	26.8
Marine Gear Transmission Equipment	—	—	—	—	—	—	—	—	13.0	0.1	717.9	0.1	58.0	0.2	3,167.9	0.3
Others *(note)*	230.1	10.0	8,874.9	11.2	4,107.4	20.6	155,578.0	22.6	4,902.0	18.6	192,936.5	20.4	5,671.5	20.0	221,900.8	18.7
Total	2,301.5	100.0	79,412.1	100.0	19,873.5	100.0	688,864.8	100.0	26,388.8	100.0	946,686.4	100.0	28,318.3	100.0	1,184,307.1	100.0

Note: The following table sets forth a breakdown of our sales volume and revenue generated from sales of other mechanical transmission equipment.

	NGC				The Group											
	For the period from 1 January 2004 to 25 February 2004				For the 2004 Period				For the year ended 31 December							
									2005				2006			
	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%
	(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)	
Others																
Mechanical transmission equipment for rubber production	7	3.0	265.0	3.0	135	3.3	5,082.9	3.3	90	1.8	3,149.9	1.6	218	3.8	7,415.6	3.3
Mechanical transmission equipment for mixers	18	7.8	585.5	6.6	611	14.9	19,567.5	12.6	360	7.3	10,248.7	5.3	609	10.7	16,826.9	7.6
Mechanical transmission equipment for coupling machines	3	1.3	106.3	1.2	17	0.4	656.0	0.4	43	0.9	1,712.3	0.9	27	0.5	1,094.0	0.5
Customised mechanical transmission equipment and related spare parts	123	53.5	4,563.7	51.4	2,132	51.9	79,231.8	50.9	2,711	55.3	105,436.7	54.6	3,584	63.2	146,525.6	66.0
Spare parts	79	34.4	3,354.4	37.8	1,160	28.2	49,079.2	31.5	1,646	33.6	70,334.0	36.5	1,229	21.7	49,866.0	22.5
Engineering gears	—	—	—	—	—	—	—	—	11	0.2	496.6	0.3	4	0.1	172.7	0.1
Locomotive gears	—	—	—	—	52	1.3	1,960.6	1.3	41	0.9	1,558.3	0.8	—	—	—	—
Total	230	100.0	8,874.9	100.0	4,107	100.0	155,578.0	100.0	4,902	100.0	192,936.5	100.0	5,671	100.0	221,900.8	100.0

Production process

The production processes of our various series of products are essentially the same. Generally, typical mechanical transmission equipment is produced by assembling various components including gears, gear shafts and housing. We manufacture gears, gear shafts and housing from main raw materials such as forged steel, cast iron, foundry steel, bearings and steel plates. Set out below is a simplified flowchart of the production process for a typical mechanical transmission equipment:



FACILITIES

As at the Latest Practicable Date, we owned 16 parcels of land with a total site area of approximately 377,900.07 sq.m. and 47 buildings, with a total gross floor area of 111,021.0 sq.m. in the PRC. These properties constitute our principal production facilities, ancillary facilities and offices. Among these properties, the following are for production purposes:

Manufacturing entities	Location	Gross floor area	Date of commencement of operations	Products
NGC	No. 3 Youjia'ao, Xiaohang, Yuhuatai District, Nanjing, Jiangsu Province, the PRC	42,538.6 sq.m.	August 2001	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, Marine Gear Transmission Equipment
	Tianyin Avenue, Jiangning Scientific Park, Jiangning District, Nanjing, Jiangsu Province, the PRC	19,548.3 sq.m.	August 2001	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, Marine Gear Transmission Equipment
Nanjing High Speed *(note 1)*	Jiangning Scientific Park, Jiangning District, Nanjing, Jiangsu Province, the PRC	33,833.0 sq.m. *(note 2)*	July 2003	Wind Gear Transmission Equipment
Ningkai	Youfang Village, Yuhuatai District, Nanjing, Jiangsu Province, the PRC	12,504.7 sq.m.	November 2002	Rough processing of components for various mechanical transmission equipment
Nanjing Dongalloy	No. 10 Gaokesan Road, Nanjing New & High Technology Industrial Development Zone, Pukou District, Nanjing, Jiangsu Province, the PRC	2,124.0 sq.m.	September 1994	Components for various mechanical transmission equipment

Notes:

1. Nanjing High Speed and Ningjiang also own two parcels of land at Mechanical & Electronic Industrial Park, Jiangning District, Nanjing, Jiangsu Province, the PRC, with a site area of 16,000.1 sq.m. and 69,670.2 sq.m., respectively. The construction of new facilities on these two parcels of land is under progress and the production equipment is being installed in the new facilities. We expect that installation of the production equipment will be completed in the third quarter of 2007. We currently plan to use the new facilities for the production of General Purpose Gear Transmission Equipment and related accessories.
2. A workshop is being constructed in the same location with a planned gross floor area of approximately 31,496.0 sq.m. The construction is under progress and the production equipment are being installed in the new facilities. We expect that installation of the production equipment will be completed in the third quarter of 2007. We currently plan to use the new facilities for the production of Wind Gear Transmission Equipment and related accessories.

Major factories and workshops

We possess valid title certificates relating to all the premises for our operating factories and workshops of NGC and Nanjing High Speed, the two principal operating subsidiaries of the Group. For each of the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, NGC and Nanjing High Speed contributed to more than 90% of both our total net profit and total turnover.

Land without valid title certificates

As at the Latest Practicable Date, we did not possess long term land use right certificates to five parcels of land with a total site area of approximately 52,440.6 sq. m., representing approximately 13.9% of the total site area of the Group. Out of the five parcels of land without valid title certificates, three parcels of land with a total site area of approximately 34,311.3 sq. m. have not been used in our production process and were purchased in the second half of 2006 and in 2007. We are still undergoing the application process to obtain the valid title certificates as it takes time to process our applications in the PRC. Our subsidiaries, namely Ningkai and Nanjing Dongalloy, currently use the remaining two parcels of land with a total site area of approximately 18,129.3 sq. m (representing approximately 4.8% of the total site area of the Group) in the production process, the details of which are as follows:

Ningkai's Land:

Ningkai currently occupies a parcel of land with a total site area of 17,649.3 sq. m. located at Youfang Village, Yuhuatai District (please refer to the property numbered 10 in the valuation certificate set out in Appendix IV to this prospectus). Buildings constructed thereon with a total gross floor area of approximately 12,504.7 sq. m. are used for preliminary processing of spare parts for various mechanical transmission equipment. Such parcel of land is allocated land, which, according to PRC law, can only be used by State-owned enterprises. However, allocated land can be converted into granted land and used by private enterprises for industrial use upon payment of land premium and completion of relevant application procedures. We are undergoing the application procedures and endeavour to obtain the valid land title by the end of 2007. The Group does not have valid building ownership certificates for three of the buildings constructed on the above mentioned parcel of land. For further details, please refer to the paragraph "Buildings without valid title certificates" below.

Nanjing Dongalloy's land:

Nanjing Dongalloy currently occupies a parcel of land for industrial use with a total site area of about 480 sq. m. located in the Nanjing New & High Technology Industrial Development Zone (南京高新技術經濟開發區) (please refer to the property numbered 11 in the valuation certificate set out in Appendix IV to this prospectus). The land use right in respect of this parcel of land has not been transferred to the Group by Nanjing New & High Technology Industrial Development General Company (南京高新技術經濟開發總公司) (an independent third party of the Group and a State-owned enterprise which manages and supervises the Nanjing New & High Technology Industrial Development Zone in relation to, inter alia, land development and management of State-owned assets) ("Nanjing New & High Technology"). We are undergoing the application procedures and endeavour to obtain the valid land title by the end of 2007. Two buildings constructed thereon are without valid building ownership certificates. For further details, please refer to the paragraph headed "Buildings without valid title certificates" below.

According to the PRC Legal Advisers, the relevant PRC governmental authorities may impose a fine for the occupation and use of land without valid title certificates and require us to vacate from buildings associated with the land without valid title certificates. However, the range of the fine is not specified under PRC laws and regulations.

Buildings without valid title certificates

As at the Latest Practicable Date, we did not possess building ownership certificates of five buildings with a total gross floor area of approximately 8,788 sq. m. representing approximately 7.9% of the total gross floor area of the Group. Such five buildings are located on the above mentioned two parcels of land currently occupied by Ningkai and Nanjing Dongalloy without valid land use right certificates:

Ningkai's facilities:

Ningkai has not yet obtained the building ownership certificates in respect of three buildings with a total gross floor area of about 6,664.0 sq. m. (please refer to the property numbered 10 in the valuation certificate set out in Appendix IV to this prospectus) as the Group has yet to obtain the land use right certificate in respect of the underlying land (please refer to the paragraph headed "Land without valid title certificates" above). The three buildings are currently occupied by Ningkai for welding activities, which, in the view of the Directors, is not a major step in our production process.

Nanjing Dongalloy's facilities:

Nanjing Dongalloy currently occupies two buildings (principally for the manufacture of spare parts) with a total gross floor area of about 2,124.0 sq. m. (please refer to the property numbered 11 in the valuation certificate set out in Appendix IV to this prospectus). The building ownership in respect of these two buildings with a total gross floor area of 1,644.9 sq. m. has not been transferred to the Group by Nanjing New & High Technology. We are undergoing the application procedures and endeavour to obtain the valid land title by the end of 2007.

According to the PRC Legal Advisers, the relevant PRC governmental authorities may impose a fine for the occupation and use of the buildings without valid title certificates and may require us to vacate from buildings without valid title certificates. However, the range of the fine is not specified under PRC laws and regulations.

The above-mentioned two parcels of land and five buildings associated with these two parcels of land are currently used in the production process for Ningkai and Nanjing Dongalloy. Neither Ningkai nor Nanjing Dongalloy has been or is currently our major subsidiary in terms of its profit and revenue contribution of the Group. During the Track Record Period, Ningkai did not conduct any external sales to the Group and Ningkai was loss-making. For each of the 2004 Period and the two financial years ended 31 December 2005 and 2006, Nanjing Dongalloy's turnover accounted for approximately 0.04%, 1.1% and 0.9% of our total revenue respectively. During the same period, the net profit contributed by Nanjing Dongalloy accounted for approximately 0.14%, 2.4% and 1.8% of our total net profit respectively.

Construction projects without construction permits and planning permits

In addition, we did not have construction permits and planning permits in respect of five construction projects as at the Latest Practicable Date. As there are uncertainties in terms of the timing of obtaining these permits, which is largely subject to the PRC governmental authorities' decision on a case-by-case basis, we have commenced construction of our projects and applied for the relevant permits simultaneously in order to speed up the construction process. Our Directors believe that we will be able to obtain all the necessary construction and planning permits by the end of 2007. We, having realised the inherent risk of not being able to obtain the permits in due course, in which case our operations and financial performance in the future might be adversely affected, will strictly follow the relevant PRC governmental application procedures prior to commencement of any of our new construction projects going forward. Out of the five construction projects, we have not commenced production on the three construction projects which are intended for future expansion of the production capacities. The remaining two construction projects relating to Ningkai's and Nanjing Dongalloy's facilities as described in the paragraph headed "Buildings without valid title certificates" above have been completed and the relevant buildings have commenced production.

Under the PRC law, if construction commences without a construction permit, the relevant PRC governmental authorities may request remedial actions, issue work suspension orders or impose a fine. However, the range of the fine is not specified in the relevant laws and regulations. If construction commences without a planning permit, the relevant PRC governmental authorities may request remedial actions within a specified time, impose a fine ranging between 3% and 15% of the construction cost, issue work suspension orders, demolition orders or forfeiture orders. Based on our discussion with the relevant local PRC authorities and the relevant PRC laws and regulations as advised by the PRC Legal Advisers, we estimate that the fine for our lack of construction permits and planning permits, if any, would be in the range of approximately RMB252,000 to approximately RMB538,000.

Safety Standards

Our Directors understand that all the building and design contractors appointed by us in relation to our construction projects are qualified ones in the PRC and, on the basis of the aforesaid, believe that the abovementioned construction projects and the buildings should be in compliance with the relevant PRC safety standards, despite the lack of the necessary construction and planning permits and building certificates.

Our remedial actions

In order to secure the use of the above land and properties, we have submitted our application to the relevant PRC governmental authorities with a view to obtaining the relevant title certificates and permits as soon as possible. In respect of Ningkai's properties which lack land use right certificates, we received a written confirmation issued by Yuhuatai Land Resources Bureau of Nanjing City on 1 March 2007, which confirmed that there would be no major obstacles for us to obtain the land use right certificates. In respect of Nanjing Dongalloy's facilities, although Nanjing New & High Technology has not obtained the valid land use right and building ownership certificates and hence it is unable to transfer such titles to us, according to the written confirmation issued by Nanjing New & High Technology on 8 March 2007, the relevant PRC governmental authorities are undergoing the procedures for transfer of the land use right and building ownership to us and there are no major obstacles for us to obtain the land use right and building ownership certificates.

We expect that all the relevant title certificates and construction and planning permits as described above will be obtained by the end of 2007. Whilst our Group will use its best endeavours to obtain the outstanding title certificates, there is no assurance that such title certificates will be obtained within the expected timeframe since the grant of such certificate is subject to the discretion of the relevant PRC governmental authorities.

If we fail to obtain the relevant title certificates and permits, our rights as owner of these properties may be adversely affected and we may be subject to the penalties and/or other actions that may be taken by the relevant PRC governmental authorities. However, as at the date hereof, the relevant PRC governmental authorities have not imposed any penalty nor expressed any intention to impose any penalty on us in respect of our land and properties which lack the relevant title certificates and permits.

The Directors consider that the use or occupation of the properties without proper title or permits is not crucial to our operations mainly because (1) the facilities of Ningkai and Nanjing Dongalloy are the only properties without proper titles or permits currently used in our production process. The two facilities occupied a total gross floor area of approximately 8,788 sq. m., representing only approximately 7.9% of the total gross floor area of the Group; (2) such facilities are used for welding activities and the manufacturing of ancillary and spare parts, both of which are not critical steps in our production process; and (3) during the Track Record Period, the revenue and profit contributed by Ningkai and Nanjing Dongalloy to the Group was not significant.

The Directors believe that in the event that we are unable to obtain the relevant title certificates and the permits in the near future, there will be no material adverse effect on our business operation or financial condition mainly because the Directors believe that where necessary, we can relocate our operations from such facilities to (a) our major workshops and factories (which are in close proximity to the facilities of Ningkai and Nanjing Dongalloy) to which we have obtained valid title certificates and/or (b) other properties in Nanjing to be leased from third parties, at a reasonable cost (estimated to be less than RMB1,000,000) and within a reasonable period of time (estimated to be no longer than one month) and without material adverse effect to the Group.

Each of Fortune Apex, Wiaearn and Luckever, being members of the Controlling Group, has provided an indemnity in our favour in respect of the losses, if any, arising from the title defects relating to our PRC land and properties.

Electricity Supply

We receive electricity supplies from the state power grid in order to ensure a safe and steady electricity supply for our operations. Due to the nationwide shortage of electricity in 2004, we constructed a power generator which is designed to supplement our electricity needs in the event of a sudden power shortage or breakdown. We used the power generator on two occasions in 2005 and have not used it since then. We expect our power generator to supplement our electricity requirements should we experience a shortage of electricity in the future.

QUALITY CONTROL

We implement a strict and extensive quality control and inspection system throughout our production processes with a view to complying with the product specifications requested by our customers and ensuring the quality of our products. We carry out a quality assurance inspection at the completion of each major manufacturing step in order to ensure the quality of our mechanical transmission equipment. Our strict quality control system is also demonstrated by our various precise testing devices such as a 3-dimensional co-ordinate measuring device imported from Germany.

To enhance our quality control and related systems, we have employed three former officers from Mitsubishi Corporation in Japan since 2004. These three officers assist us in implementing quality control measures and assist in the adoption of various quality programmes, including the "5S" production management method. The "5S" production management method is a reference to five Japanese words that describe standardised clean-up in the course of production. The five Japanese words are *seiri* (i.e. tidiness), *seiton* (i.e. orderliness), *seiso* (i.e. cleanliness), *seiketsu* (i.e. standardise) and *shitsuke* (i.e. sustaining discipline).

Also, we invite quality control specialists from companies such as GE to provide training to our staff from time to time with a view to enhancing our quality control in different production processes.

QUALITY CERTIFICATIONS

We focus on gaining customer acceptance and recognition of our products. Our products have attained various international quality standards. We have also received many awards in recognition of the quality of our products. We strive to comply with these standards for the purposes of satisfying our existing and potential overseas customers.

International certifications and standards

- ISO9001 quality management system certification

  We obtained this certification (which is renewable every three years) in 1997. ISO9001 is an international standard used to measure product quality and involves the implementation of a quality control system throughout the various stages of production, including product design and development, the production process, testing, inspection and servicing of the finished product. ISO9001 is part of the ISO9000 family of certifications and is applicable to companies that conduct research and development as well as production.

- ISO1328-1:1995 and ISO1328-2:1997

  We obtained these certifications in 2007 (which are renewable every five years). The certifications are within the ISO system of accuracy and are international standards relating to the limits and fits for cylindrical gears. The certifications prescribe the definitions and allowable values of deviations relevant to corresponding flanks of gear teeth and radial composite deviations.

- ISO14001 environmental management system certification

  We obtained this certification in April 2007. The ISO14000 family of certifications aims to help organisations minimise the negative impact of their operations on the environment and to comply with applicable laws, regulations and other environmentally oriented requirements from time to time. ISO14001 is applicable to companies that manufacture products.

The following international standards and requirements are specific to the mechanical transmission equipment industry and wind power industry. Whilst there is no specific accreditation authority to certify conformity by manufacturers with these standards and requirements, in order to meet the needs of our customers, we have adopted these standards and requirements in our production and operations. As these standards are recognised both domestically and internationally, we believe our compliance with these standards has increased the confidence of our local and international customers regarding the quality and reliability of our products.

- API 613

  This is a standard issued by the American Petroleum Institute in February 2003 prescribing the minimum requirements for special-purpose, enclosed, precision speed increasers and reducers for petroleum, chemical and gas industry services. This standard is primarily intended for gear units that are in continuous service without installed spare equipment.

- DIN 3990.1 - 1987

  This is a German standard issued by the German Institute for Standardisation in relation to the calculation requirements for load capacity of cylindrical gears.

- AGMA 6006

  This is a standard issued by the American Gear Manufacturers Association for design and specifications of mechanical transmission equipment for wind turbines. It prescribes standards for specifying, selecting, designing and manufacturing mechanical transmission equipment for wind turbine generator system service.

- Guidelines for certification of wind turbines issued by Germanischer Lloyd WindEnergie GmbH (“Germanischer”)

  These are guidelines published by Germanischer on the quality requirements of generators used in the wind power industry.

- ASTM A304

  This is a standard issued by the American Society for Testing and Materials prescribing the standard specification for carbon and alloy steel bars subject to end-quench hardenability requirements, which are raw materials for the production of gears.

- DIN EN 10084

  This is an European standard approved by the European Committee for Standardisation in relation to case hardening steel.

We have also invited international certification institutions, such as Bureau Veritas, American Bureau of Shipping and The Royal Institution of Naval Architects, to certify our design and production for the Marine Gear Transmission Equipment. Bureau Veritas, American Bureau of Shipping and The Royal Institution of Naval Architects are members of the International Association of Classification Societies, an association representing the world’s major classification societies consisting ten members and one associate member. Bureau Veritas, American Bureau of Shipping and The Royal Institution of Naval Architects are qualified to provide certification of vessel supplies. Although there is no specific legal requirement that we must obtain certifications of these organisations, we have obtained such certifications to satisfy our customers’ requests and to enhance our market reputation. Usually, if the vessels manufactured by our customers are certified by a particular institution, our Marine Gear Transmission Equipment, being used in the assembly of our customers’ vessels, will also be certified by the same institution as per our customers’ requests. China Classification Society is also a member of the International Association of Classification Societies which awards certification for a product if such product does not have any quality defect within a year after it is manufactured and we have already obtained a prior certification from it. Similarly, it is not a requirement under the PRC laws and regulations that we must obtain the certification of the China Classification Society. All of the above institutions are third parties independent from and not connected with the chief executive, the directors and the substantial shareholders of our Company or any of its subsidiaries or any of their respective associates.

RESEARCH, DESIGN AND DEVELOPMENT

We put great emphasis on our research, design and development capabilities, as we believe that it is only through the innovation of technologically advanced products that we will be able to maintain our market position amongst the leading manufacturers of mechanical transmission equipment.

We have a large research, design and development team, which comprised approximately 200 staff members as at 31 December 2006, most of whom are engineers recruited from reputable universities in the PRC. We use software technology such as KISSsoft calculation programmes for designing and developing our products and assessing the durability of mechanical transmission equipment. KISSsoft is a software applied for the design, optimisation and analysis of power transmission and machinery components including gears, shafts, shaft-hub connections and complete gearboxes. This software assists in calculating the strength or lifetime of these components. We also use ANSYS finite element analysis tools for assessing the quality and precision standards of our products. It is an integrated, modular and extensible simulation system applied to predict how product designs behave in manufacturing and real-world environments. All these software programmes enable us to comply with various international quality certifications as well as international guidelines and requirements relating to the production of mechanical transmission equipment.

We collaborate with leading PRC universities and research and development institutions to develop new products and improve existing production technology. For example, we collaborated with Xi'an Jiaotong University (西安交通大學) in developing a software programme that is used in our design process to enhance the reliability of our High-speed Series Gear Transmission Equipment. We also collaborated with Mecal Applied Mechanics B.V., a wind power engineering institution in the Netherlands, in undertaking a strength analysis on the torsion support of our Wind Gear Transmission Equipment.

Through our research, design and development efforts, we have registered ten patents (including two invention patents, two design patents and six utility model patents) in the PRC. We also have 20 other pending patent applications in the PRC (已受理專利申請). Our current product development efforts are focused on mechanical transmission equipment for wind turbines, marine-related uses and light rails and high-speed rails. Our strong research, design and development capacities have been recognised by internationally renowned business partners. For example, in August 2006, we entered into a joint development agreement with GE for the development and manufacture of Wind Gear Transmission Equipment for its 1.5MW wind turbines generators. We anticipate that mass production and sales of such products will commence in late 2007. Please refer to "Our Relationship with GE - Joint Development with GE" for further information in relation to our collaboration with GE. In October 2005, we entered into a strategic cooperation agreement with Dongfang for the joint development of Wind Gear Transmission Equipment for 1.5MW wind turbines whereby we agreed to supply 1.5MW Wind Gear Transmission Equipment to Dongfang. At the initial stage, the parties co-developed two types of 1.5MW Wind Gear Transmission Equipment. Subject to satisfaction of the quality of our products, Dongfang will give priority to us when selecting suppliers. Dongfang is one of the leading manufacturers of wind turbines in the PRC and is principally engaged in the manufacture and sale of nuclear power steam turbines, heavy steam turbines, thermal and electric steam turbines and large-scale wind turbines. We have already commenced mass production and sales of 1.5MW Wind Gear Transmission Equipment to Dongfang since early 2007. In addition, in June 2006, we established a joint venture, namely ZF Nanjing, with ZF China to assemble and sell 800 hp or above series Marine Gear Transmission Equipment. Profits of ZF Nanjing will be shared according to the proportion of each party's equity interests therein, namely as to 40% for our Group and 60% for ZF China. The scope of business of ZF Nanjing includes the application, engineering, assembly, testing and sale of 800 hp or above series Marine Gear Transmission Equipment and we have granted ZF Nanjing the exclusive right to conduct such activities. We expect that ZF Nanjing will commence operations by the third quarter of 2007. ZF China is a member of the ZF group, an international corporation which provides components and systems to the automotive, commercial vehicle, off-highway/construction, marine, rail and aviation industries. We also intend to develop and supply controllable pitch propellers (CPP) for ZF Padova S.P.A., another subsidiary of ZF. We entered into a memorandum of understanding with ZF Padova S.P.A. in August 2006 whereby ZF Padova S.P.A. has designated the Group as the sole production and assembly base for the commercial craft segment product controllable pitch propeller. ZF Padova S.P.A. is a supplier of marine propulsion systems and is principally engaged in the design, manufacture and sale of, among other things, controllable pitch propellers. We believe our collaborations with leading manufacturers demonstrate their recognition of our strong research, design and development capabilities.

We endeavour to expand our existing pool of research, design and development staff through recruitment exercises. We recruit engineering graduates from reputable universities in the PRC, such as Tsinghua University (清華大學) to maintain the quality of our in-house researchers and engineering designers. Our expenditure on research and development activities is generally based on our business plan, and we spent RMB2.2 million, RMB4.2 million, RMB25.2 million and RMB30.9 million on research and development activities for the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2006 respectively, part of which has been capitalised. We intend to continue to invest in research, design and development for our business going forward. Based on our current business plan, we intend to spend approximately RMB300 million in aggregate on research, design and development activities for 2007, 2008 and 2009.

MARKETING, SALES AND AFTER SALES SERVICE

Marketing strategy and sales

Our sales and marketing team, which consisted of over 140 sales and marketing executives as at 31 December 2006, formulates our overall marketing and sales strategies and is responsible for negotiating contracts with our customers. Most of our sales and marketing executives, who are university graduates, are experienced in the mechanical transmission equipment industry. Our sales and marketing executives are familiar with the technical specifications of our products and we believe that our dedicated and technically qualified and experienced sales team enables us to better understand the needs and requirements of our customers. We also have certain sales personnel responsible for the sales and marketing of mechanical transmission equipment to our customers that have customised design and production requirements. We have dedicated our sales staff to serve our customers in Nanjing as well as other parts of China.

After-sales services and technical assistance

Our sales and marketing executives are also responsible for providing after-sales services and technical assistance to our customers. We provide after-sales maintenance and repair services to our customers and it is our policy to attend to any request on site within 12 and 24 hours notice from our PRC customers located in the Jiangsu Province and its surrounding areas. We also provide technical assistance to our customers in the PRC for the installation of our goods. For customers located in other areas, we endeavour to respond to their queries with 48 hours and to provide follow-up services and support as soon as possible.

Our annual sales targets for each year are usually pre-determined late in the preceding year, taking into account the current year's performance and trends which we expect to affect sales in the following year. To encourage our sales personnel to achieve greater sales targets, their remuneration packages are tied to their sales performance.

CUSTOMERS

Our products are sold to reputable domestic and international customers. Goldwind, a leading manufacturer of wind turbines in the PRC and ranked by BTM consult ApS as one of the ten largest wind turbine manufacturers worldwide in 2006, is one of our major Wind Gear Transmission Equipment customers. Dongfang, being another leading manufacturer of wind turbines in China and Shanghai Electric Wind Power Equipment Co., Ltd. (上海電氣風電設備有限公司) are also our PRC-based Wind Gear Transmission Equipment customers. Our PRC-based customers for our other products include Baoshan Iron & Steel Co., Ltd. (上海寶山鋼鐵股份有限公司) (a steel manufacture in China), Yiyang Rubber & Plastics Machinery Group Co., Ltd. (益陽橡膠塑料機械集團有限公司) (a rubber and plastic machinery manufacturer in China), CISDI Engineering Co., Ltd. (中冶賽迪工程技術股份有限公司) (a consultancy and engineering firms engaged in the metallurgy industry), China National Machinery & Equipment Import & Export Corporation (中國機械設備進出口總公司) (a machinery trading firm in China), China First Heavy Industries (中國第一重型機械集團公司) (a machinery manufacturer in China) and Tianjin Cement Industry Design & Research Institute Co., Ltd. (天津水泥工業設計研究院有限公司) (a contractor of cement-related equipment in China).

We have also been enhancing our international market position, as our products are being sold to leading manufactures around the world. For example, in May 2006, we entered into a supply agreement with GE Energy for the supply of Wind Gear Transmission Equipment for its wind turbines. Other international customers for our Wind Gear Transmission Equipment include Nordex and REpower. GE Energy, Nordex and REpower which were all ranked by BTM Consult ApS as among the top ten wind turbine manufacturers worldwide in 2006. Further, we entered into a supply agreement with a third party Japanese trading company in July 2006 for the supply of 2.0 MW series Wind Gear Transmission Equipment to Fuji Heavy Industries Ltd. as the end-user. The Wind Gear Transmission Equipment manufactured by us pursuant to this supply agreement was exported to Fuji Heavy Industries Ltd. in May 2007. In April 2007, we entered into a development support service agreement with one of the worldwide leading railway infrastructure technical service providers based in France pursuant to which it agreed to provide technical assistance and expertise to us in relation to the design and development of mechanical transmission equipment for light rails and high speed rails.

Our products are applied in many products across different industries. Therefore, our business is not overly reliant on any particular industry and our top five customers tend to vary from year to year. For the 2004 Period and the two years ended 31 December 2005 and 2006, our revenue generated from export sales accounted for 3.9%, 8.3% and 11.7%, respectively, of our total revenue. No export sales were conducted during the period from 1 January 2004 to 25 February 2004. Set out below is a table showing the amount of export sales and the respective percentage of our Group's total revenue for the 2004 Period and two years ended 31 December 2005 and 2006:

For the 2004 Period			For the year ended 31 December 2005			For the year ended 31 December 2006		
Country	Amount of export sales	Percentage of total revenue of our Group	Country	Amount of export sales	Percentage of total revenue of our Group	Country	Amount of export sales	Percentage of total revenue of our Group
	(RMB '000)	(%)		(RMB '000)	(%)		(RMB '000)	(%)
Turkey	11,247.4	1.6	Pakistan	24,724.8	2.6	United States	47,881.4	4.0
Pakistan	6,494.0	0.9	United States	18,310.1	1.9	Austria	15,108.5	1.3
Vietnam	3,169.2	0.5	Italy	12,981.9	1.4	Pakistan	11,217.3	1.0
Oman	2,307.7	0.3	Vietnam	6,699.1	0.7	Turkey	9,387.3	0.8
United States	1,290.1	0.2	Laos	5,123.9	0.5	Vietnam	8,489.5	0.7
Others	2,092.5	0.4	Others	10,773.4	1.2	Others	46,018.7	3.9
Total	26,600.9	3.9	Total	78,613.2	8.3	Total	138,102.7	11.7

Our export sales are mainly conducted through participation in overseas exhibitions, promotion on our website and referral by existing overseas customers. The export of our products is governed by Foreign Trade Law of the People's Republic of China and Regulation of the People's Republic of China on the Administration of the Import and Export of Goods and is not subject to any quota restriction. We export our products through NGC and Nanjing High Speed and both of them are licensed to export self-produced products under the PRC laws and regulations. We endeavour to expand our customer base to reduce the risk of customer concentration and expect our sales to overseas customers to grow significantly in the near future as we will increase our export sales of the Wind Gear Transmission Equipment and Marine Gear Transmission Equipment.

Our five largest customers accounted for an aggregate of 42.0%, 12.7%, 16.6% and 30.0% of our total revenue for the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, respectively. During the same period, our largest customer accounted for 14.2%, 3.4%, 4.8% and 19.1%, respectively, of our total sales. None of our Directors or their respective associates (as defined in the Listing Rules), or our existing shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any interest in any of our five largest customers.

Goldwind, who was a substantial shareholder of Nanjing Wind Power until 2006, has been our customer since 2005 and principally purchases our Wind Gear Transmission Equipment. As we increased our production of Wind Gear Transmission Equipment from 2005 to 2006, we increased our sales to Goldwind in 2006. The transactions between Goldwind and us no longer constituted related party transactions of the Company since the disposal of Goldwind's interest in Nanjing Wind Power on 20 December 2006. Our Directors confirmed that the transactions between Goldwind and us have been on normal commercial terms.

PRICING POLICY

We determine product pricing from time to time and principally based on the following factors: quantity and costs of raw materials, manufacturing costs, transportation costs and the potential after-sales services likely to be required. Generally, once established, the prices of each of our standard products do not fluctuate significantly over time unless there are significant changes to the prices of any of our major raw materials. For our customised products, we receive quotes from our suppliers prior to submitting bids to our customers. Because our customers who require customised products are focused on purchasing products that meet their specifications, we are typically able to adjust the prices of our customised products higher if our raw material prices increase. However, the prices of our products did not fluctuate significantly in the last three financial years.

However, certain more complex products, such as our Wind Gear Transmission Equipment, command prices that are significantly higher than other products. In addition, the cost of producing customised products is also dependent upon the time and resources involved in the customisation exercise and this is peculiar to each customised product.

CREDIT POLICY

Our policy is that all contracts must be fully paid up by our customers within 18 months from the date of the sale contract. Typically, our customers pay us a 25%-30% deposit upon the signing of a purchase order, another 25%-30% when the products purchased are being manufactured and the balance, subject to an amount of 5%-10% of the purchase price retained by the customer as described below, upon delivery to customers, or upon installation and testing of the products by the customers. It is very common for our customers to withhold a percentage of the total contract price, generally 5%-10% of the total contract price as retention monies, to secure our performance over the warranty period. Usually, the credit period granted to both domestic and overseas customers varies from 90 to 180 days. We continue to attempt to collect account receivables from our customers even after the credit period and our staff will follow up with these customers and request payment, a process which inevitably takes up time. We will only deem trade receivables uncollectible after careful consideration and after having attempted to collect such trade receivables from our customers. Trade receivables aged over three years are generally deemed to be uncollectible or unlikely to be collectible. As at 25 February 2004, 31 December 2004, 2005 and 2006, our accumulated impairment for doubtful debts for trade and notes receivables amounted to RMB11.4 million, RMB15.2 million, RMB23.2 million and RMB28.1 million, representing 6.5%, 8.6%, 5.6% and 5.3% of our trade and other receivables, respectively. For the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, the amount of impairment loss on trade and other receivables actually made amounted to RMB22,000, RMB5.6 million, RMB6.6 million and RMB5.0 million, respectively.

WARRANTY POLICY

We typically offer warranty on our mechanical transmission equipment for a period of 12 months from collection or delivery of the finished product or from the installation of our product into the customer's machine during which faulty products will be repaired or replaced. For some of our products, such as Wind Gear Transmission Equipment for our overseas customers which usually require more time for transportation, assembling and testing, the warranty period may be up to 18 months. Usually, our customers request to retain 5% - 10% of the purchase price of our products as security for our performance of obligations during such warranty period and none of our customers forfeited such retained sums during the Track Record Period. The total amount of retention for period as at 25 February 2004 and as at 31 December 2004, 2005 and 2006 was RMB28.1 million, RMB25.6 million, RMB33.0 million and RMB38.1 million, respectively. Provisions were made, in accordance with our provisioning policy, when the amounts retained were not recovered after the expiry of the warranty period. Provisions for retention monies of RMB2.7 million, RMB11.4 million, RMB22.0 million and RMB14.3 million were made for the period from 1 January 2004 to 25 January 2004, the 2004 Period and the two years ended 31 December 2005 and 2006 respectively. During the same period, the recovery of such retention monies amounted to RMB2.6 million, RMB10.0 million, RMB20.4 million and RMB13.3 million, respectively.

INVENTORY AND INVENTORY ALLOWANCE POLICIES

Inventories are initially recorded at cost. The cost of inventories comprises all costs of purchase, costs of conversion, and other costs incurred to bring inventories to their present location and condition. Inventories mainly include raw materials, work in progress, and finished goods.

Inventories are accounted for using the actual costing method. In determining the cost of inventories transferred out or issued for use, the actual costs are determined by the weighted average method.

We purchase raw materials from time to time based on our production plan and our anticipated needs for the future two to three months. We usually maintain a minimum level of raw materials which is sufficient for our production demands for at least one month.

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. We regularly review the market value of our inventories based on our estimate of future demand for our products and other market conditions. Moreover, we perform annual stock take through which we can identify obsolete items. Allowance will be made against inventories should the net realisable value of inventories falls below the costs or any of them are identified as obsolete. However, as our inventories are not commonly subject to wear and tear and our products do not become obsolete easily, we do not have any provision for inventories based on their aging analysis.

SUPPLIERS OF RAW MATERIALS

The major raw materials used in our products include forged steel, cast iron, foundry steel, bearings and steel plates. We outsource some of our raw material processing work to independent third parties, primarily under the following four circumstances (i) when certain simple, labour-intensive manufacturing processes could be done less expensively when outsourced; (ii) when we do not have the production capacity to manufacture; (iii) when certain products require specialised processing which our Group is unable to carry out because we do not have the necessary equipment; and (iv) require certain specialised treatment due to environmental issues which our Group is unable to carry out because we do not have the necessary equipment or expertise. We spent RMB13.1 million, RMB130.0 million, RMB172.9 million and RMB172.1 million for outsourced processing for the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, respectively. We also purchase some processed raw materials for our production needs. We have a panel of over 100 third parties to perform the processing work and the top ten service providers vary from time to time. Therefore, we consider that we do not rely on any particular third party service providers. Potential service providers are required to submit production information, qualification certificates and information on their track record for our consideration. For each piece of outsourcing work, six to seven suitable candidates will be short-listed to participate in the bidding exercise. We will enter into an agreement with the selected service provider which sets out, among other things, the production specifications, delivery terms and pricing. Our expenditure on raw materials, including outsourced processing, for the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006 accounted for 85.6%, 85.6%, 83.6% and 83.1%, respectively, of our total costs of goods sold. The table below illustrates the average prices per ton of our major raw materials for the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006:

	For the period from 1 January 2004 to 25 February 2004	For the 2004 Period	For the year ended 31 December 2005	For the year ended 31 December 2006
	(RMB per ton)			
Steel plates	4,354	4,354	3,850	3,167
Bearings	4,852	4,852	4,226	4,257
Cast iron and forged steel	8,072	8,470	9,177	9,078

Note: The average prices are determined by dividing the costs of raw materials by the volume of raw materials consumed during the Track Record Period. Please refer to the section headed "Financial Information — Results of Operations — Cost of goods sold" of this prospectus for further information on our costs of raw materials.

We believe that the price fluctuations of our major raw materials during the Track Record Period are due to normal market fluctuations from time to time.

Procurement through bidding

We procure a majority of our raw materials through bidding exercises. We procure our raw materials through bidding exercises in order to lower the prices for raw materials. The practice of procuring raw materials through the soliciting of bids was started in 1999 to ensure that we purchased raw materials of high quality at competitive prices. At the same time, we implemented a "just-in-time" method to manage the procurement of raw materials in order to minimise our cash usage and maintain our inventory at an appropriate level.

We procure three categories of raw materials with respect to which we require supply on a frequent basis. The first category comprises of materials that are standard and commonly available from many suppliers, such as steel plates. These raw materials require processing before entering into our production process. The second category comprises of materials that also require processing before entering our production process, such as forged steel. Such raw materials are usually more complex and require longer periods of time to produce. The third category is bearings which are readily available in the market and which require no processing. For all three categories of raw materials, we contract with the chosen supplier on the basis of an agreed price per unit, per set or per ton of the raw material concerned. In the course of that year, we will purchase the raw material based on the contract price. At the end of the period, if our chosen supplier offers us competitive prices, we will renew the supply contract with that supplier. Otherwise we will carry out the bidding exercise again.

We only invite bids from suppliers who have passed our internal quality assessment to submit bids for our consideration. In addition, we consider the suppliers' historical business track records and whether they possess the requisite regulatory permits, approvals and licenses to carry on its business. We carry out regular audits at the factory sites of our suppliers to ensure that they remain compliant with our quality requirements.

Before a bidding process, our subsidiaries submit their procurement needs to our bidding department. Based on our procurement needs, we invite the qualified suppliers to submit their bids. As all the bidders have already passed our quality assessment, we select our suppliers based on the prices they offer during the bidding process.

The credit terms extended by our suppliers to us generally depend on our relationship with the suppliers. A few suppliers require us to make prepayments for our orders for purchases. The credit terms granted to us by our major suppliers are usually three to five months after satisfactory inspection of the raw materials received. Because of the time involved in the inspection of raw materials and because we are billed by our suppliers usually once a month, the credit terms are usually as long as 100-180 days starting from the time when the raw materials are received.

For the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, the purchase of raw materials from our five largest suppliers accounted for 22.9%, 25.1%, 15.9% and 26.8% of our total purchases of raw materials. During the same period, the purchase of raw materials from our largest supplier accounted for 6.1%, 9.4%, 4.4% and 8.5% of our total purchases of raw materials. We do not rely on any particular supplier for our supply of raw materials as we are able to purchase our raw materials from many suppliers. None of our Directors or their respective associates (as defined in the Listing Rules), or our existing shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any interest in any of our five largest suppliers.

COMPETITION

We face competition in the domestic and international markets in which we operate. Domestically, a few large scale manufacturers of mechanical transmission equipment such as Chongqing Gearbox Co., Ltd. (重慶齒輪箱有限責任公司) and Hangzhou Advance Gearbox Co., Ltd (杭州前進齒輪箱集團有限公司) compete with us in the production and sale of mechanical transmission equipment. We also face competition from international manufacturers, such as SEW-EURODRIVE, Flender Holding GmbH and Hansen Transmission BV in respect of our high-end and high-precision series of products, such as Wind Gear Transmission Equipment and General Purpose Gear Transmission Equipment. These international manufacturers may have worldwide offices and sell products to international customers as well as customers in China. Larger overseas competitors may have competitive advantages over us in certain areas such as access to capital, technology, product quality, economies of scale and brand recognition.

INTELLECTUAL PROPERTY

Our intellectual property rights are important to our business as our products are manufactured using advanced technologies and processes that are designed for professional industrial uses. Currently, we have two trademarks and ten patents (including two invention patents, two design patents and six utility model patents) registered in the PRC as well as 20 other pending patent applications in the PRC. Our patents primarily relate to product technology. Due to the increasing recognition of intellectual property rights in the PRC, we have implemented an active programme to protect our intellectual property rights by progressively applying for patent registration of all of our existing registrable product technology, which relate to the production design, production processes and cutting techniques. We also continuously seek new patents for products and technologies developed through our research, design and development activities.

We are conscious about protecting our intellectual property rights and we require all of our employees, ranging from management staff, research, design and development staff, technical staff, sales staff to workers, to sign a confidentiality agreement which covers a wide range of confidential information including commercial secrets, manufacturing methods, technical plans and reports, industrial processes, product designs, records of research, design and development. Details of our intellectual property portfolio are provided in the section headed ''Intellectual Property'' in Appendix VI ''Statutory and General Information'' to this prospectus.

INFORMATION SYSTEM

Our existing information management system incorporates a software application from Oracle, known as Oracle Application R11i, that integrates various information in relation to, among other things, our procurement, production and sales as well as other financial data under one system. The centralisation of this data enables us to comprehensively manage our manufacturing process, supply chain, logistics, information flows, fund flows and inventory control through real time input and status checks of our purchases and orders, raw materials inventory level, accounts receivables and accounts payables and monitor of our production schedule, logistics support and warehousing needs. For example, this system links production costs and the related administrative functions together such that we may perform cost model calculations and analysis more efficiently and effectively, and more importantly, it enables us to attend and respond to our customers' needs more swiftly. We have implemented and used this system throughout our Group since July 2000.

We also employ recent technology such as CAD in our product design and formulation. CAD refers to the use of a wide range of computer-based tools that assist engineers, architects and other design professionals in their design activities. We use computer-aided design software such as Solid Edge for our three-dimensional designs. Solid Edge is a mechanical design system with tools for creating and managing three-dimensional digital prototypes. We also use KISSsoft calculation programme for designing and developing our products and assessing the durability of mechanical transmission equipment. KISSsoft is a software applied for design, optimisation and analysis of power transmission and machinery components including gears, shafts, shaft-hub connections and complete gearboxes. The software assists in calculating the strength or lifetime of these components. In addition, we use ANSYS finite element analysis tool for assessing the quality and precision standards of our products. It is an integrated, modular and extensible simulation system used to predict how product designs will behave in manufacturing and real-world environments. In addition, we use XTMCAD for our two-dimensional designs and XTCAPP for refining the production process and quality of our products. In 1999, we were nominated as a Model Enterprise for the Implementation of CAD Projects and one of the 863 State Plan CIMS Application Model Enterprise. Since the introduction of these systems and CAD software, we have not experienced any material failure thereof.

To ensure the integrity of our information system, we adopt customary precautionary measures such as regular back-ups for our data, the installation of firewalls and anti-virus softwares to prevent intrusion by hackers. We also restrict access, search, downloading and amendment of our technical know-how to limited personnel based on their positions in our Group, and only on a need-to-know basis with a view to preventing any loss of our intellectual property rights.

EMPLOYEES

As at 31 December 2006, we employed 2,241 full-time employees. The following table sets forth the total number of employees by function as of 31 December 2005 and 31 December 2006:

	As of 31 December 2005		As of 31 December 2006	
	Number of employees	% of total	Number of employees	% of total
Production	1,037	52.9%	1,233	55.0%
General and administration	195	10.0%	222	9.9%
Research and development	176	9.0%	202	9.0%
Technical services	145	7.4%	148	6.6%
Sales and marketing	137	7.0%	146	6.5%
Raw materials procurement	100	5.1%	98	4.4%
Quality control	93	4.7%	109	4.9%
Others	76	3.9%	83	3.7%
Total	1,959	100.0%	2,241	100.0%

We have entered into labour contracts with each of our employees as required under the PRC law. We have entered into fixed term employment contracts from one to five years with the majority of our employees. We have entered into longer term labour contracts with some of our more senior and technically skilled employees. In addition, according to the PRC labour law, employees who have been employed by a company for ten years or more must be offered labour contracts with an indefinite term upon an employee's request. Therefore, we have also entered into long-term labour contracts with certain employees falling under this category.

We recognise that technical employees are an integral part of our business as our production requires the application of technical skills and the research and development of new products and technologies.

To ensure the quality of our employees and management of our headcounts, our human resources department centralises the recruitment of employees above the middle management and technical employees. For our other employees, they are recruited by our respective subsidiaries. We generally recruit graduates with mechanical engineering degrees and some of our employees are graduates from leading universities in the PRC such as Tsinghua University (清華大學) and Harbin Institute of Technology (哈爾濱工業大學).

Employee training

We believe our growth depends on the capability and dedication of our employees and we recognise the importance of human resources for improving our business and results of operations. We have devoted resources to training our employees. We have a one-year structured programme for our new employees including technicians, graduates and management personnel so that they can master the skills required and be familiar with the operations of our business. Technical employees are rotated to different departments during the one-year period to receive on the job training and to enable them to familiarise themselves with the production process. These employees are required to attend an assessment at the end of the training programme to evaluate whether they are familiar with our production process.

We are also concerned about the continued development of our employees and we have established a training department, which provides and organises ongoing education and training programmes to our employees, in accordance with the needs of different departments and the positions of the employees. We select outstanding technicians to attend training courses for technicians organised by professional organisations such as Nanjing Mechanical and Electronics (Group) Co., Ltd. (南京機電產業(集團)有限公司). We have also collaborated with universities such as Tongji University (同濟大學) and Hehai University (河海大學) to offer MBA programmes and Nanjing University of Science & Technology (南京理工大學) to offer master engineering degree programmes to some of our employees. In order to strengthen the continuing training of our employees, we select some of our employees to attend various international technical conferences and exhibitions in the PRC such as Third Asian Wind Power Conference, International Wind Power Equipment Exhibition and 2006 Hanover Industrial Expo.

In order to retain employees who have received these trainings with us, we generally require employees who have completed the master degree programmes to remain in our employment for a period of at least ten years.

The salary levels for our different categories of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as our financial performance. In addition to salaries, we provide housing allowances to some of our employees. We also offer incentive programmes to encourage our employees to take initiatives and reward employees who have made valuable contributions or achieve technical breakthroughs. Our employees are rewarded for their creativity achievements in technologies and technical skills, management of information, product quality and enterprise management. The scope of the programme is designed to cover all of our employees.

All of our employees belong to a trade union that is a member of the All China General Trade Union. We have entered into a contract with our trade union on the mechanism for salary reviews, employee benefits, training, insurance, safety, sanitary standards and the mechanism for dispute resolution. We have not experienced any major labour disputes and consider our relationship with our employees to be good.

WELFARE CONTRIBUTION

Our PRC subsidiaries participate in the social insurance schemes which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance, as well as the housing fund plans organised by the relevant local government authorities in accordance with the applicable PRC regulations. Nanjing Wind Power and Nanjing Marine have also participated in the aforesaid social insurance schemes and housing fund plans since April 2007. For the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, the contributions of the Group in relation to such welfare schemes amounted to approximately RMB3.3 million, RMB17.5 million, RMB29.9 million and RMB44.7 million respectively.

INSURANCE

We maintain comprehensive insurance coverage on certain of our plants which also includes coverage on equipment and machineries located inside these plants. The amounts insured are the cost of these plants and the respective equipment and machinery at cost. We also maintain insurance coverage on certain of our motor vehicles at cost. We do not maintain product liability insurance and we have not had any material product liability claims made against us in the past. However, we may consider maintaining product liability insurance if our customers specifically request us to do so.

We believe that the above insurance coverage is sufficient to cover the potential risks posed by our business and operations. We have not made any claims against the relevant insurance companies under the comprehensive insurance policies in respect of our plants.

ENVIRONMENTAL COMPLIANCE AND SAFETY

We have a safety and environment department that is responsible for regulating our work safety and health conditions, ensuring our business and operations comply with applicable work safety and environment protection requirements and monitoring our continual compliance in these two areas. To recognise our efforts and our outstanding performance in environmental protection, the Nanjing Yuhuatai District Environmental Protection Committee granted us the title of an "Advanced Unit in Environmental Protection" on 20 February 2006.

As the mechanical transmission equipment industry is not considered by the State Environmental Protection Authority as a heavy pollution industry in the PRC, it is not subject to any specific environment protection regulations. Laws and regulations on environmental protection that are applicable to the Group are mainly general PRC laws and regulations on environmental protection. Examples are the "Environmental Protection Law of the People's Republic of China" (中華人民共和國環境保護法), the "Water Pollution Prevention Law of the People's Republic of China" (中華人民共和國水污染防治法), the "Atmospheric Pollution Prevention Law of the People's Republic of China" (中華人民共和國污染防治法), the "Environmental Noise Pollution Prevention Regulations of the People's Republic of China" (中華人民共和國環境噪音污染防治條例), the "Environmental Impact Assessment Law of the People's Republic of China" (中華人民共和國環境影響評價法) and the "Regulations Governing Environmental Protection in Construction Projects" (建設項目環境保護管理條例). Also, the general environmental regulations relating to noise and the treatment of industrial waste are still applicable to our operations. For example, we have constructed a water treatment facility to treat our wastewater before it is discharged and the environment authority from Nanjing Environmental Bureau has certified that such facility meets the requisite environmental standards. We obtain a sewage discharge permit from the PRC environmental protection authority every year in accordance with the relevant PRC laws and regulations. We understand that our customers generally expect us to comply with the applicable PRC laws and regulations during our production process. Oil waste, iron and steel waste and industrial waste are properly stored and sold to parties that are properly licensed to perform recycling of such waste. We have also installed facilities to filter noises of the factory production processes. For the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2006, we incurred RMB0.5 million, RMB0.5 million, RMB0.3 million and RMB0.4 million in relation to environmental protection. We currently do not have any specific capital expenditure plan in relation to environmental protection. However, we will devote operating and financial resources on environmental protection whenever we are required by PRC laws and regulation to do so in the future.

As most of the machinery and equipment used by us are computerised, and the processing of such machinery and equipment are usually carried out in an enclosed manner, no heavy pollution is involved in our production process. Notwithstanding that our operations are not considered to involve heavy pollution, we are very conscious about our work safety level and efforts have been made to improve the general safety standards of our plants and operations. We have implemented an internal environmental protection assessment measure, which requires each production unit to report their waste level to the safety and environmental department and complete a checklist of such waste to confirm their compliance with our environmental related requirements from time to time. Our safety and environmental department oversees our compliance in relation to safety and environmental issues. It aims to assist the Group in complying with the applicable laws and regulations by setting different targets and strategies. The operation of our safety and environmental department is monitored by Mr. Li Cunzhang, an executive Director and the department consists of ten members dedicated to the safety and environmental issues of the Group. Mr. Li Cunzhang has engaged in mechanical transmission equipment production management for more than 30 years.

With a view to confirming that we complied with the relevant PRC laws and regulations on environmental protection, we obtained the Safety and Quality Standardisation Mechanical Manufacturing Enterprise Certificate issued by the Jiangsu Province Safety Production Supervision and Administration Bureau in February 2007, certifying and confirming that the Group has complied with the applicable PRC laws and regulations on environmental protection and no environmental complaints or administrative penalties have been made against or imposed on the Group during the Track Record Period. Based on the aforesaid certificate, the PRC Legal Advisers have also confirmed that the Group has complied with the applicable PRC laws and regulations on environmental protection and no environmental complaints or administrative penalties have been made against or imposed on the Group during the Track Record Period.

We have implemented the ISO14001 environmental management system. The ISO14000 family of certifications aims to help organisations minimise the negative impact of their operations on the environment and to comply with applicable laws, regulations and other environmentally oriented requirements from time to time. ISO14001 is applicable to companies that manufacture products. We obtained the ISO14001 certification in April 2007.

As at the Latest Practicable Date, we have complied with the PRC laws and regulations on environment protection and workplace safety that are applicable to our operations. We have not been subject to any fines or administrative action involving non-compliance with any relevant environmental regulations, nor are we aware of any threatened or pending action by any environmental regulatory authority in any place where we operate our business.

LEGAL PROCEEDINGS

As at the Latest Practicable Date, there were no current litigation or arbitration proceedings or any pending or threatened litigation or arbitration proceedings against us or any of our Directors that could have a material adverse effect on our financial condition or results of operations. In the opinion of the PRC Legal Advisers, we have complied with all relevant laws and regulations and have obtained all licences, approvals and permits from appropriate regulatory authorities for our business operations in the PRC including the "Certificate of Customs Declaration Registration of Consignees/Consignor of Imported and Exported Goods" (進出口貨物收發貨人報關注冊登記證書), "Certificate of Qualifications of Import and Export Enterprise of the People's Republic of China" (中華人民共和國進出口企業資格證書), "Certificate of Registration of Self-Service Declarant" (自理報關單位注冊登記證明書), "Permit for Road Transport Operation" (道路運輸經營許可證) and "Hygienic Permit" (衛生評可證). For the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, in addition to the expenses incurred in relation to environmental protection as set out in the paragraph headed "Environment compliance and safety" above, we also incurred expenses of nil, RMB95,000, RMB80,000 and RMB80,000, representing the legal fees incurred by us in relation to regulatory compliance matters.

PRC REGULATORY APPROVALS

In relation to the Restructuring and Global Offering, the PRC Legal Advisers confirmed that the Company has obtained all necessary approvals and consents and has complied with all relevant rules, regulations and registration requirements imposed by the relevant PRC authorities including the "SAFE Notice 75" (外管局75號號通知), "Provisional Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors" (外國投資者併購境內企業暫行規定) ("Provisional Regulations on Merger and Acquisition"), "Regulations on Merger and Acquisition of Domestic Enterprises by Foreign Investors" (外國投資者併購境內企業規定) ("Regulations on Merger and Acquisition") and "Securities Law of the People's Republic of China" (中華人民共和國證券法).

In particular, our Company has obtained approval from the relevant PRC governmental authority in accordance with the Provisional Regulations on Merger and Acquisition regarding the Company's inbound investment in the equity interests in NGC in November 2005. The Provisional Regulations on Merger and Acquisition was superseded by the Regulations on Merger and Acquisition on 8 September 2006. As the Regulations on Merger and Acquisition does not operate retrospectively, it does not apply to the aforesaid inbound investment. Similarly, the PRC Legal Advisers confirmed that our Company is not required to seek approval from CSRC stipulated by Article 45 of the Regulations on Merger and Acquisition regarding the proposed listing when the aforesaid inbound investment was carried out. Furthermore, the PRC Legal Advisers confirmed that the "Circular of the State Council on Further Strengthening Administration over Issue of Shares and Listing Overseas" (國務院關於進一步加強在境外發行股票和上市管理的通知) is not applicable to the Restructuring and the Global Offering and thus, no approval, permission or consent from CSRC or other PRC governmental authorities contemplated thereto is required. The "Circular of the State Council on Further Strengthening Administration Over Issue of Shares and Listing Overseas" is applicable to offshore unlisted and listed companies controlled by PRC corporate shareholders. Immediately prior to the Listing, the Company is controlled by Fortune Apex (a BVI company owned and controlled by the Management Shareholders), Luckever (a BVI company owned and controlled by Mr. Liu Xuezhong and his wife Ms. Li

Yuelan) and Wiaearn (a BVI company owned and controlled by Mr. Pan Jinhong), which together constitute the Controlling Group with an aggregate shareholding of approximately 60.8%. The ultimate shareholders of the Controlling Group, namely the Management Shareholders (who control Fortune Apex), Mr. Liu Xuezhong and his wife Ms. Li Yuelan (who control Luckever) and Mr. Pan Jinhong (who controls Wiaearn) are individuals and not corporate entities. Having considered the "Securities Law of the People's Republic of China" and other applicable PRC laws and regulations, the PRC Legal Advisers confirmed that the listing of the Company does not require the approval from CSRC or other PRC governmental authorities. The Company has verbally consulted with CSRC Jiangsu Provincial Office (the provincial arm of CSRC in Jiangsu, whose role is to oversee listed companies, securities and futures institutions and related activities thereof in the Jiangsu Province) and has been assured that no CSRC approval is required.

OVERVIEW

We have entered into certain transactions with parties who are our connected persons and these transactions will continue following the Listing Date, thereby constituting continuing connected transactions of the Company within the meaning of the Listing Rules.

EXEMPT CONTINUING CONNECTED TRANSACTIONS

1. Lease Agreement between Yongte and NGID

(a) *Description of the Transaction*

On 29 December 2006, Yongte (being a subsidiary of the Company) and NGID entered into a lease agreement ("Lease Agreement") whereby NGID has agreed to lease the properties located at No.3 You Jia Ao, Nanjing to Yongte for a term of three years commencing from 1 January 2007 and expiring on 31 December 2009. The Lease Agreement is renewable upon mutual agreement with two months' prior notice by Yongte.

(b) *Parties and Relationship*

NGID is owned by Mr. Liu Xuezhong as to 28% and Ms. Li Yuelan as to 18%. Mr. Liu Xuezhong and his wife, Ms. Li Yuelan in aggregate hold 100% interest in Luckever, a substantial shareholder of the Company (as defined in the Listing Rules). Therefore, each of Mr. Liu Xuezhong and Ms. Li Yuelan is a connected person of the Company. As Mr. Liu Xuezhong and Ms. Li Yuelan together hold more than a 30% equity interest in NGID, NGID is their associate and a connected person of the Company. Also, NMED which holds a 44% equity interest in NGID, is owned as to 60% by Lianxin and as to 40% by Mr. Pan Jinhong. Lianxin is wholly-owned and controlled by the Management Shareholders. Management Shareholders also hold a 10% equity interest in NGID through Lianxin. Since Management Shareholders together are directly or indirectly interested in, and exercise or control the exercise of more than 30% of the voting power of, NGID, NGID is an associate of Management Shareholders and hence a connected person of the Company. Mr. Hu Yueming, Chairman and an executive Director of the Company, is also a director of NGID.

(c) *Rental*

The annual rental payable by Yongte to NGID under the Lease Agreement is RMB1,100,000 (HK$1,122,449).

The Company confirms that the rental payment under the Lease Agreement is determined by reference to the prevailing market rate. DTZ Debenham Tie Leung Limited, an independent property valuer, has confirmed that the annual rental payable under the Lease Agreement reflects a fair and reasonable market rent for similar property in Nanjing.

(d) ***Reason for the Transaction***

The properties subject to the Lease Agreement are used by Yongte for industrial use. The Lease Agreement enables us to formalise and provide a contractual basis for the arrangement in relation to the use of the properties owned by NGID. It also ensures that Yongte enjoys stable arrangements in relation to the use of the relevant properties under the Lease Agreement.

2. Contract for Lease / Right to Use Land Temporarily (臨時使用土地合同書) between Ningkai and Nanjing Yuhuatai District Saihong Bridge Street Office ("Saihong Street Office")

(a) ***Description of the Transaction***

Ningkai (being an indirect non-wholly owned subsidiary of the Company) and Saihong Street Office entered into a contract on 13 February 2007 in relation to the temporary lease for /right to use a piece of land located at Youfang Qiao, Nanjing, owned by Saihong Street Office.

On 2 March 2007, Ningkai and Saihong Street Office entered into a new contract ("New Contract") to supersede the contract dated 13 February 2007. Pursuant to the New Contract, Saihong Street Office and Ningkai have agreed that Ningkai may use the piece of land located at Youfang Qiao, Nanjing, for an annual consideration of RMB1,030,000 (HK$1,051,020) for a term from 1 January 2007 to 31 December 2008.

(b) ***Parties and Relationship***

NGC, a wholly-owned subsidiary of the Company, holds a 83.37% equity interest in Ningkai. The remaining 16.63% equity interest in Ningkai is held by Nanjing Saihong Industrial and Trading Co., Ltd. (南京賽虹工貿有限公司) ("Saihong"). Saihong is wholly-owned by two State-owned enterprises which are supervised and controlled by Saihong Street Office, a PRC local governmental office. As Saihong Street Office is an associate of Saihong which in turn is a substantial shareholder of Ningkai, Saihong Street Office is considered to be a connected person of the Company.

(c) ***Annual Consideration***

The annual consideration payable by Ningkai to Saihong Street Office under the New Contract is RMB1,030,000 (HK$1,051,020).

The Company confirms that annual consideration is determined by reference to the prevailing market rate. DTZ Debenham Tie Leung Limited, an independent property valuer, has confirmed that the annual consideration payable under the New Contract reflects a fair and reasonable market rent for similar property in Nanjing.

(d) ***Reason for the Transaction***

The land referred to hereinabove is used by Ningkai for storage of raw materials. The New Contract enables us to formalise and provide a contractual basis for the arrangement in relation to the use of the land. It also ensures that Ningkai enjoy the use of the relevant land under the New Contract.

LISTING RULES' IMPLICATIONS AND THE DIRECTORS' VIEW

Each of the above continuing connected transactions under the Lease Agreement and the New Contract constitutes a continuing connected transaction exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules as each of the percentage ratios (other than the profit ratio) is, on an annual basis, less than 0.1%.

Our Directors (including our independent non-executive Directors) consider that each of the continuing connected transactions under the Lease Agreement and the New Contract has been entered into in the ordinary course of business of our Group, is based on arm's length negotiations and normal commercial terms, and are fair and reasonable so far as the Company and our Shareholders taken as a whole are concerned.

RELATED PARTY TRANSACTIONS

Our Directors (including our independent non-executive Directors) also confirm that each of the related party transactions of the Company set out in note 30 to the accountants' report of NGC in Appendix IA and note 42 to the accountants' report of our Company as set out in Appendix IB to this prospectus pursuant to Accounting Standard 24 "Related Party Disclosures" were carried out in the ordinary and usual course of business and on normal commercial terms.

With a view to establishing a mutually beneficial long-term relationship, GE (through its indirect wholly-owned subsidiary) has invested in our Company as a minority investor. We believe the investment by GE in our Company will enhance our shareholder profile and create prospects for new contacts and additional business opportunities. Our Directors are of the view that such investment will assist us to achieve long-term growth by leveraging our strategic relationship with GE.

BACKGROUND OF GE

GE is an international conglomerate based in the United States with widespread business operations in different countries. GE is made up of six business groups, namely (i) GE Commercial Finance; (ii) GE Healthcare; (iii) GE Industrial; (iv) GE Infrastructure; (v) GE Money; and (vi) NBC Universal, each of which is comprised of a number of business units. GE Energy, operated under GE Infrastructure, is one of the world's leading wind turbine suppliers with over 7,500 worldwide wind turbine installations comprising more than 9,800 MW of capacity. With wind manufacturing and assembly facilities in Germany, Spain, the PRC, Canada and the United States, GE Energy's wind power product portfolio includes wind turbines with rated capacities ranging from 1.5 MW to 3.6 MW and supports services ranging from development assistance to operation and maintenance.

INVESTMENT IN OUR COMPANY BY GE CAPITAL

On 8 February 2007, GE Capital entered into a share subscription agreement with our Company ("GE Subscription Agreement") pursuant to which GE Capital agreed to subscribe for 7,648 Shares ("GE Shares") at an aggregate consideration of US$8.5 million (equivalent to approximately HK$66.3 million) ("GE Subscription"). Completion of the GE Subscription took place on the same day. The GE Shares represented 5% of the then issued share capital of our Company as enlarged by such issue. The effective cost per share after being adjusted by taking into account the entitlements to the Capitalisation Issue is US$0.18889, representing a discount of 72.6% (based on the Offer Price of HK$5.38) and 79.2% (based on the Offer Price of HK$7.08) to the Offer Price respectively.

Pursuant to the GE Subscription Agreement, to the extent permitted by law and applicable stock exchange rules and to the extent that additional Shares that may be subscribed by GE Capital under a Qualifying IPO are counted as part of the public float under the applicable stock exchange rules, our Company is required to use its best efforts to cause the underwriters of the Qualifying IPO to offer to GE Capital the right to purchase at least 5% of the Shares to be issued in the Qualifying IPO at the offer price of the Qualifying IPO ("Subscription Right"). Such Subscription Right provision is also provided in the Shareholders' Agreement. The Global Offering and the proposed listing of our Company on the Stock Exchange as described in this prospectus is a Qualifying IPO for the purposes of the GE Subscription Agreement. If the Subscription Right is exercised by GE Capital and such Subscription Right is satisfied in full, it is currently expected that 15,000,000 Shares ("Additional GE Shares") will be placed to GE Capital as part of the International Placing pursuant to the GE Subscription Agreement and the Shareholders' Agreement, and will be subject to the same terms as those generally offered to other investors under the Global Offering.

On 15 June 2007, GE Capital has undertaken to the Global Co-ordinator and us that it will exercise the Subscription Right in full to subscribe for the Additional GE Shares at the Offer Price. However, the Global Co-ordinator shall have the sole discretion to decide whether to allocate the Additional GE Shares to GE Capital in full, in part or at all.

The total number of Shares to be held by GE Capital immediately before and after the subscription for the Additional GE Shares are 45,000,000 and 60,000,000 respectively. The Additional GE Shares represent approximately 1.25% and 1.20% of the total issued share capital of the Company upon completion of the Global Offering before and after full exercise of the Over-allotment Option respectively. If the Over-allotment Option is not exercised and all the Additional GE Shares are allocated to GE Capital, GE Capital will be interested in 5 % of the total issued share capital of the Company upon completion of the Global Offering. If the Over-allotment Option is exercised in full and all the Additional GE Shares are allocated to GE Capital, GE Capital's total shareholding in the Company will be diluted to approximately 4.82% upon completion of the Global Offering. If no Additional GE Shares are allotted to GE Capital, GE Capital's total shareholding in the Company will be diluted to approximately 3.75% and 3.61% of the total issued share capital of the Company upon completion of the Global Offering before the exercise of the Over-allotment Option and after full exercise of the Over-allotment Option, respectively.

The issue of the Additional GE Shares, if any, will not be affected by the clawback mechanism; and the number of Additional GE Shares will not be increased even if the Over-allotment Option is exercised.

The subscription for the Additional GE Shares by GE Capital under the Global Offering will be made pursuant to the pre-existing GE Subscription Agreement and Shareholders' Agreement, and the Additional GE Shares will rank pari passu in all respects with other Shares to be issued under the Global Offering. The sole purpose of the allotment of the Additional GE Shares to GE Capital (if the Subscription Right is exercised by GE Capital and such Subscription Right is satisfied in full) is to restore its shareholding in the Company upon completion of the Global Offering on a fully diluted basis (on the assumption that the Over-allotment Option is not exercised) to the level of its shareholding in the Company prior to the Global Offering. The Directors believe that GE's equity investment in the Company is in the interest of the Company and the Shareholders as a whole.

The allotment of the Additional GE Shares to GE Capital under the Global Offering will be conducted on the following terms and conditions, among other things:

(1) the Additional GE Shares will be offered to GE Capital at the Offer Price and on same terms and conditions as Shares to be offered to other subscribers pursuant to the Global Offering; and

(2) the Shares currently held by GE Capital and the Additional GE Shares will be subject to a voluntary lock-up for a period of six months from the Listing.

GE Capital will be regarded as a member of the public under the Listing Rules. GE Capital confirmed that it and its associates are not connected clients of the lead broker or of any distributors of the Global Offering as defined under Appendix 6 to the Listing Rules.

As GE Capital is an existing shareholder of the Company prior to the Global Offering, the Company has obtained a waiver from strict compliance with Rule 10.04 of the Hong Kong Listing Rules and consent from the Stock Exchange under paragraph 5(2) of Appendix 6 to the Listing Rules (Placing Guidelines for Equity Securities) for the placing of Offer Shares to GE Capital.

All the special rights granted by the Company to GE Capital under the GE Subscription Agreement and Shareholders' Agreement will lapse upon Listing.

GE CAPITAL'S LOCK-UP UNDERTAKING

Pursuant to the non-disposal undertaking dated 11 June 2007, GE Capital has undertaken not to, among other things, dispose of any of its Shares (including the Additional GE Shares, if any) or any interest therein for a period of six months from Listing.

JOINT DEVELOPMENT WITH GE

Our products have been sold to GE since 2004 and we have been chosen to participate in the global supply chain of GE since 2005. For the period from 1 January 2004 to 25 February 2004, the 2004 Period and the two years ended 31 December 2005 and 2006, our sales to GE amounted to nil, RMB1.4 million, RMB18.1 million and RMB75.5 million, respectively. With a view to strengthening our relationship with GE Energy and as part of our future plans in increasing our production volume of Wind Gear Transmission Equipment, it is our intention to explore ways to cooperate with GE relating to the development, manufacturing and sale of, among other things, mechanical transmission equipment for wind turbines. On 30 August 2006, NGC (our wholly-owned subsidiary) and GE entered into a joint development agreement ("Joint Development Agreement") for a term of seven years subject to the terms and conditions contained therein. GE Energy is the energy business unit within the "GE Infrastructure" business group of GE. Pursuant to the Joint Development Agreement, NGC and GE agreed to cooperate in the development of mechanical transmission equipment for 1.5 MW wind turbines of GE Energy ("GE Gear Transmission Equipment") to be manufactured by NGC and sold by GE and NGC to customers both in the PRC and overseas. The cooperation between the Group and GE will be principally based on the following:

Implementation of the proposal

NGC shall implement the proposal as mutually agreed between the parties in connection with the development of, among other things, the GE Gear Transmission Equipment at the facilities of NGC, the access to which shall be controlled and restricted to the employees of NGC as necessary for the completion of such proposal. GE shall, upon reasonable notice to NGC, have the right to inspect such facilities. Each party shall designate an employee as the programme coordinator in connection with the joint development programme carried out pursuant to the Joint Development Agreement.

Funds for the development

Pursuant to the Joint Development Agreement, each of NGC and GE shall provide funds in an amount not exceeding US$150,000 to be used by NGC for engineering software development expenses associated with the work contemplated under the Joint Development Agreement and the proposal related to the development of GE Gear Transmission Equipment. Such funds shall be paid by the parties between June 2007 to September 2007. Save as aforesaid, there is no committed capital contribution under the Joint Development Agreement.

Purchase of mechanical transmission equipment by GE

Upon satisfaction of the qualification criteria of the GE Gear Transmission Equipment as set out by GE, GE shall purchase the GE Gear Transmission Equipment from NGC at a mutually agreed price to be determined with reference to prevailing market prices and the prices that NGC sell to third parties. Furthermore, GE shall purchase from NGC at least 50% of GE's actual requirements for GE Gear Transmission Equipment beginning from 2010.

Intellectual property

The parties agreed that they shall equally and jointly own all ownership rights, regardless of whether such rights were derived jointly or individually, in all the intellectual properties derived in the course of the work done in support of the joint development programme under the Joint Development Agreement. If NGC is able to satisfy the supply of GE Gear Transmission Equipment to GE under the Joint Development Agreement but GE chooses to purchase additional GE Gear Transmission Equipment from third parties, GE shall pay a royalty for each additional unit of GE Gear Transmission Equipment purchased from third parties to NGC. Likewise, if NGC sells GE Gear Transmission Equipment to third parties in accordance with the terms of the Joint Development Agreement, NGC shall pay a royalty for each additional unit of GE Gear Transmission Equipment sold to third parties to GE.

It is currently expected that the research and development work pursuant to the Joint Development Agreement will be completed in the third quarter of 2007, while the commercial production of the GE Gear Transmission Equipment will commence towards the end of 2007. We believe that our cooperation with GE represents a milestone for us since it will enhance the Group's know-how in the design and production of Wind Gear Transmission Equipment and secure the demand of our Wind Gear Transmission Equipment from one of the largest worldwide wind turbine manufacturers.

Others

Pursuant to the Joint Development Agreement, any dispute between NGC and GE arising therefrom shall be settled by way of arbitration.

GENERAL

The number and the terms of office of the Directors to be appointed is determined by ordinary resolution at the shareholders meeting. The Chairman of the Board is elected by the majority vote at a meeting of the Board.

The function and powers of the Board include, among others:

- all such powers which are not required to be exercised by our Company in general meeting;
- appoint any person to hold such office as the Directors may think necessary for the administration of our Company for such term and at such remuneration as the Directors may think fit;
- exercise all powers of our Company to borrow money and to mortgage or charge its undertaking, property and uncalled capital or any part thereof, to issue debentures, debenture stock and other securities whenever money is borrowed or as security for any debt, liability or obligation of our Company or of any third party; and
- cause minutes to be made in books provided for the purpose of recording all appointments of Officers made by the Directors, the names of the Directors present at each meeting of the Directors and of any committee of the Directors and all resolutions and proceedings at all meetings of the Company, and of the Directors and of committees of Directors.

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Hu Yueming, aged 58, is our Chairman and executive Director. Mr. Hu is an 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 NGC in August 2001. Mr. Hu also holds directorship in certain subsidiaries of the Group, namely Ningjiang, Nanjing Dongalloy, Nanjing High Speed, Ningkai, Nanjing Wind Power, Ningtai, Yongte, Nanjing Marine, Eagle Nice Holdings Limited and Goodgain Group Limited. 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. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Chen Yongdao, aged 44, 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, and Nanjing Marine. 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. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Li Cunzhang, aged 58, is our executive Director. Mr. Li is an engineer by profession. He initially worked as our workshop head, assistant to general manager and then deputy general manager of the Nanjing High Speed Gear Factory. He became a director and the deputy general manager of NGC in August 2001. Mr. Li also holds directorship in certain subsidiaries of the Group, namely Nanjing Dongalloy, Nanjing High Speed, Ningkai, Nanjing Marine and Eagle Nice Holdings Limited. Mr. Li, an expert on mechanical transmission equipment production management, has engaged in mechanical transmission equipment production management for more than 30 years. He has also participated in a number of research projects for the development of mechanical transmission equipment production techniques. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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, Shenyang Sales Co., Eagle Nice Holdings Limited and Goodgain Group Limited. 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 experience in marketing management and client resources. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Li Shengqiang, aged 53, 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 Ningjiang, Nanjing High Speed, Ningkai, Yongte, Nanjing Wind Power, Eagle Nice Holdings Limited and Goodgain Group Limited. He is also the general manager of Ningjiang. Mr. Li has engaged in the enterprise management of our Group for more than 25 years and has experience in mechanical transmission equipment production management. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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 Ningjiang, Nanjing High Speed, Ningkai, Nanjing Wind Power, and Yongte. 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. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Liao Enrong, aged 47, is our executive Director. 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, and Goodgain Group Limited. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

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 was nominated by Luckever Holdings Limited (which is expected to hold approximately 13.13% shareholdings in the Company immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised) as a non-executive Director. 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. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Zhang Wei, aged 42, is our non-executive Director. He is 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, deputy secretary, and the chief executive director of Hiteker High Technology Co., Ltd. He is currently a director, general manager and deputy secretary of the party's committee of Jiangsu VC. Mr. Zhang was nominated by Wise-Win Technology Limited (which is expected to hold approximately 3.46% shareholdings in the Company immediately following completion of the Global Offering, assuming that the Over-allotment Option is not exercised) as a non-executive Director. He is also a director of Jiangsu VC which in turn owns and controls Wise-Win Technology Limited. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Wang Qi, aged 44, is our non-executive Director. He is also a director of NGC. 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 in charge of financial services for the European Development Banks operating in China. He currently serves as a director of DPF. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Richard Andrew Cornish Piliero, aged 34, is our non-executive Director. He is also a director of NGC. Mr. Piliero graduated from Brown University with a B.A degree in Business Economics and International Relations. He worked as a financial analyst in the investment banking department of Bear, Stearns & Co. Inc. in New York in 1996. He then worked as an associate at Investor Growth Capital, Inc. in New York in 1998, which is part of Investor AB of Sweden. In 2000, Mr. Piliero co-founded and became partner of ctr! Ventures LP. Since 2001, he worked at Templeton Asset Management Ltd, based in Singapore, in the Templeton Strategic Emerging Markets Fund. At Templeton, Mr. Piliero currently holds the title of executive director. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Independent non-executive Directors

Mr. Zhu Junsheng, aged 67, 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. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Jiang Xihe, aged 49, is our independent non-executive Director. He passed the examination organised by the examination committee for certified accountants, the Ministry of Finance and obtained professional accounting qualification recognised 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 (南京師範大學金陵女子學院). 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 committee of accounting teaching research society of Jiangsu province 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. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Mr. Chen Shimin, aged 48, is our independent non-executive Director. He is an 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 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. He has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to him which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 44, 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. Other than Mr. Lui's appointment as an independent non-executive director of Zhejiang Shibao Company Limited (a company listed on GEM of the Stock Exchange) since May 2006, he has not been a director of any other public listed company during the three years preceding the date of this prospectus. Save as disclosed herein, there are no other matters in relation to Mr. Lui which are required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules.

Ms. Zhou Jingjia, aged 43, 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.

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. Mr. Zhang is one of the 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 graduated from Zhejiang University (浙江大學) in 1993 and specialised in metallic materials and thermo processing. Mr. Wang is a senior engineer by profession.

Mr. Wang Zhengrong, aged 40, 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 graduated from Chengdu University of Science and Technology (成都科技大學) in 1988 and specialised 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 specialised 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.

Management continuity

Pursuant to Rule 8.05(1)(b) of the Listing Rules, our Company must have had management continuity requirement for at least the three preceding financial years ended 31 December 2006 . There are seven executive Directors and six of whom, namely Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Lu Xun, Mr. Li Shengqiang and Mr. Liu Jianguo have been the executive directors of NGC (representing all the executive directors of NGC during the Track Record Period) since 2001. The seventh executive Director is Mr. Liao Enrong who has acted as the secretary to the board of NGC since August 2001 and a deputy general manager of NGC since February 2003.

Another principal operating subsidiary of our Company is Nanjing High Speed. There are currently nine directors of Nanjing High Speed and all of whom have been directors throughout the three financial Track Record Period. Out of these nine directors of Nanjing High Speed, seven of whom, namely, Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Li Shengqiang, Mr. Lu Xun, Mr. Liu Jianguo and Mr. Liao Enrong, are also executive Directors.

In this regard, we consider that we have met management continuity requirements pursuant to Rule 8.05(1)(b) of the Listing Rules.

Audit committee

Our audit committee consists of three members, being Mr. Zhu Junsheng, Mr. Jiang Xihe and Mr. Wang Qi. Mr. Jiang Xihe currently serves as the chairman of our audit committee. The primary duties of the audit committee are to review and supervise our financial reporting process and internal control system, nominate and monitor external auditors and provide advice and comments to the Board. Two of them are independent non-executive Directors.

Remuneration committee

The remuneration committee consists of three members, being Mr. Chen Shimin, Mr. Jiang Xihe and Mr. Zhang Wei. Mr. Chen Shimin currently serves as the chairman of our remuneration committee. The primary duties of the remuneration committee are to evaluate the performance and make recommendations on the remuneration of our senior management and recommend members to the Board. Two of them are independent non-executive Directors.

SHARE OPTION SCHEME

We have conditionally adopted the Share Option Scheme. Details of the principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" as set out in Appendix VI "Statutory and General Information".

DIRECTORS' AND SENIOR MANAGEMENT'S REMUNERATION

The aggregate amount of fee, salaries, housing allowances, other allowances and benefits in kind paid by the Group to the Directors for the period from 1 January 2004 to 25 February, the 2004 Period and the two years ended 31 December 2006 were RMB523,000, RMB2,547,000, RMB3,762,000 and RMB4,772,000, respectively.

All our Directors receive reimbursements from us for expenses that are necessarily and reasonably incurred for providing services to us or in the execution of matters in relation to our operations. Our executive Directors are also our employees and receive, in their capacity as our employees, compensation in the form of salaries and contributions to the pension scheme according to PRC laws.

The aggregate amount of fees, salaries, housing allowances, other allowances and benefits in kind paid by the Group to its five highest paid individuals for the period from 1 January 2004 to 25 February, the 2004 Period and the two years ended 31 December 2006 were RMB366,000, RMB1,843,000, RMB2,716,000 and RMB3,360,000, respectively.

Save as disclosed above, no other payments have been made or are payable by the Company to the directors, in respect of the three years ended 31 December 2006.

BENEFITS

As required by PRC regulations on social insurance, we participate in the social insurance schemes operated by the relevant local government authorities which include retirement pension, medical insurance, unemployment insurance, industrial injuries insurance and maternity insurance.

For the 2004 Period and the two years ended 31 December 2006, we made contributions to social insurance schemes in the sums of RMB18.7 million, RMB19.7 million and RMB33.5 million respectively.

WAIVER FROM STRICT COMPLIANCE WITH RULE 8.12 OF THE LISTING RULES

Pursuant to Rule 8.12 of the Listing Rules, we must have a sufficient management presence in Hong Kong. This normally means that at least two of our executive Directors must be ordinarily resident in Hong Kong.

Given that our business and operations are primarily located, managed and conducted in the PRC and none of our executive Directors are ordinarily resident in Hong Kong, we consider that it would be unduly burdensome for us to maintain a management presence in Hong Kong in order to comply with the requirement under Rule 8.12 of the Listing Rules.

Accordingly, we have applied to the Stock Exchange for a wavier from strict compliance with the requirements under Rule 8.12 of the Listing Rules. In order to maintain regular communication with the Stock Exchange, we have put in place various measures which are set out in the section headed "Waivers from Compliance with the Listing Rules in this prospectus."

COMPLIANCE ADVISER

The Company has appointed Guotai Junan Capital Limited as its compliance adviser (the "Compliance Adviser") pursuant to Rule 3A.19 of the Listing Rules. Pursuant to the terms of the engagement letter entered into between the Company and the Compliance Adviser, the Compliance Adviser will advise the Company, among others, on the following matters:

(1) before the publication of any regulatory announcement, circular or financial report;

(2) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;

(3) where the Company proposes to use the proceeds of the Global Offering in a manner different from that detailed in the prospectus or where the business activities, developments or results of the Company deviate from any forecast, estimate, or other information in the prospectus; and

(4) where the Stock Exchange makes an inquiry of the Company regarding unusual movements in the price or trading volume of the Company.

The term of appointment of the Compliance Adviser shall commence on the Listing Date and end on the date of despatch of the annual report of the Company in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

The authorised and issued share capital of the Company is as follows:

	Authorised share capital
	(US$)
Number of Shares comprised in the authorised share capital:	
3,000,000,000 Shares of US$0.01	30,000,000

Assuming the Over-allotment Option is not exercised, the Company's share capital immediately following the Global Offering will be as follows:

		US$	Approximate percentage of issued share capital
			(%)
Issued and to be issued, fully paid or credited as fully paid upon **completion of the Global Offering:**			
(Shares)			
152,964	Shares in issue at the date of this prospectus	1,529.64	0.01
899,847,036	Shares to be issued pursuant to the Capitalisation Issue	8,998,470.36	74.99
300,000,000	Shares to be issued pursuant to the Global Offering	3,000,000	25.00
1,200,000,000	Total	12,000,000	100.00

Assuming the Over-allotment Option is exercised in full, the Company's share capital immediately following the Global Offering will be as follows:

		US$	Approximate percentage of issued share capital
			(%)
Issued and to be issued, fully paid or credited as fully paid upon **completion of the Global Offering:**			
(Shares)			
152,964	Shares in issue at the date of this prospectus	1,529.64	0.01
899,847,036	Shares to be issued pursuant to the Capitalisation Issue	8,998,470.36	72.28
345,000,000	Shares to be issued pursuant to the Global Offering	3,450,000	27.71
1,245,000,000	Total	12,450,000	100.00

Assumptions

The above tables assume that the Global Offering and the Capitalisation Issue become unconditional. It takes no account of Shares which may be allotted and issued upon the exercise of any options that may be granted under the Share Option Scheme or of any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate as described below.

Ranking

The Offer Shares will rank pari passu in all respects with all other Shares in issue as mentioned in this prospectus, and in particular, will rank in full for all dividends and other distributions hereafter declared, paid or made on the Shares after the date of this prospectus save for entitlement under the Capitalisation Issue.

ISSUING MANDATE

Our Directors have been granted a general unconditional mandate to allot, issue and deal with unissued Shares with an aggregate nominal value not exceeding 20% of the aggregate of the total nominal amount of the share capital of the Company in issue as enlarged by the Global Offering and the Capitalisation Issue (but excluding any Shares which may be issued pursuant to the Over-allotment Option).

Our Directors may, in addition to the Shares which they are authorised to issue under the mandate, allot, issue and deal in the Shares pursuant to a rights issue, an issue of Shares pursuant to the exercise of subscription rights attaching to any warrants or convertible securities of our Company, scrip dividends or similar arrangements or the exercise of options granted under the Share Option Scheme.

This mandate will expire:

(i) at the conclusion of our Company's next annual general meeting; or

(ii) upon the expiry of the period within which our Company is required by any applicable law or its Articles to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For further details of the Issuing Mandate, see the paragraph headed "Written resolutions of the Shareholders passed on 8 June 2007" in Appendix VI to this prospectus.

REPURCHASE MANDATE

Our Directors have been granted a general unconditional mandate to exercise all the powers of our Company to repurchase Shares with an aggregate nominal value of not more than 10% of the aggregate nominal amount of the share capital of our Company in issue, as enlarged by the Global Offering and the Capitalisation Issue (but excluding any Share of the Company which may be issued pursuant to the Over-allotment Option).

This mandate relates only to repurchases made on the Stock Exchange or on any other stock exchange on which the Shares are listed (and which is recognised by the SFC and the Stock Exchange for this purpose), and which are made in accordance with the Listing Rules. A summary of the relevant Listing Rules is set out in the section headed "Repurchase by the Company of its own securities" in Appendix VI to this prospectus.

This mandate will expire:

(i) at the conclusion of our Company's next annual general meeting; or

(ii) upon the expiry of the period within which our Company is required by any applicable law or its Articles to hold its next annual general meeting; or

(iii) when varied or revoked by an ordinary resolution of the Shareholders in general meeting;

whichever occurs first.

For further information about the Repurchase Mandate, see the section headed "Written resolutions of the Shareholders passed on 8 June 2007" in Appendix VI to this prospectus.

SUBSTANTIAL SHAREHOLDERS

So far as the Directors are aware, immediately following the completion of the Global Offering (but without taking into account Shares to be issued pursuant to the exercise of the Over-allotment Option) and the Capitalisation Issue, assuming that the Additional GE Shares are placed to GE Capital in full, the following persons, not being a Director or chief executive of our Company, will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to our Company under provisions of Divisions 2 and 3 of Part XV of the SFO, or who are, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of members of our Group other than the Company:

(i) Long and short positions in the Shares and underlying Shares

Name of Shareholder	Nature of interest	Number of securities held	Approximate shareholding percentage
			(%)
Fortune Apex *(note 3)*	Beneficial owner	329,386,024(L)	27.45
		45,000,000(S) *(note 2)*	3.75
Wiaearn *(note 4)*	Beneficial owner	60,284,023	5.02
Mr. Pan Jinhong *(note 4)*	Interest of a controlled corporation	60,284,023	5.02
Luckever *(note 5)*	Beneficial owner	157,568,700	13.13
Mr. Liu Xuezhong *(note 5)*	Interest of a controlled corporation and interest of spouse	157,568,700	13.13
Ms. Li Yuelan *(note 5)*	Interest of a controlled corporation and interest of spouse	157,568,700	13.13
Value Partners Limited *(note 6)*	Investment Manager	94,273,765	7.86
Mr. Cheah Cheng Hye *(note 7)*	Interest of a controlled corporation	94,273,765	7.86
GE Capital	Beneficial owner	60,000,000	5.00
General Electric Company *(note 8)*	Interest of a controlled corporation	60,000,000	5.00

Notes:

(1) The letters "L" and "S" denote a person's "long position" and "short position" (as defined under Part XV of the SFO) in such Shares, respectively.

(2) These Shares will be the subject of the Stock Borrowing Agreement.

(3) Fortune Apex owns a 27.45% interest in the issued share capital of the Company. The Management Shareholders together own a 100% interest in the issued share capital of Fortune Apex. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex:

	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%

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

(4) Wiaearn owns a 5.02% interest in the issued share capital of the Company. Mr. Pan Jinhong owns 100% interest in the issued share capital of Wiaearn. Pursuant to the SFO, Pan Jinhong is deemed to be interested in the 60,284,023 Shares in which Wiaearn is currently interested.

(5) Luckever owns a 13.13% 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 respectively. Ms. Li Yuelan is the spouse of Mr. Liu Xuezhong and therefore, she is deemed to be interested in the Shares of which Mr. Liu Xuezhong is deemed to be interested in 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 in which Luckever is currently interested.

(6) Value Partners Limited is the investment manager of each of the New VPL Funds/Sub-Funds and is therefore deemed to be interested in the Shares held by the New VPL Funds/Sub-Funds in aggregate.

(7) Mr. Cheah Cheng Hye is the beneficial owner of 35.65% of the issued share capital of Value Partners Limited and therefore is deemed to be interested in the Shares held by Value Partners Limited pursuant to the SFO.

(8) GE Capital owns a 5% interest in the issued share capital of the Company if GE Capital exercises the Subscription Right in full and that the Global Co-ordinator allocates 15,000,000 Shares ("Additional GE Shares") to GE Capital as part of the International Placing pursuant to the GE Subscription Agreement and the Shareholders' Agreement. On 15 June 2007, GE Capital has undertaken to the Global Co-ordinator and us that it will exercise the Subscription Right in full to subscribe for the Additional GE Shares at the Offer Price. However, the Global Co-ordinator shall have the sole discretion to decide whether to allocate the Additional GE Shares to GE Capital, or at all. General Electric Company is a company listed on the New York Stock Exchange (NYSE: GE) and wholly owns GE Capital through intermediate companies, namely General Electric Capital Services, Inc. and General Electric Capital Corporation, and is therefore deemed to be interested in the Shares held by GE Capital pursuant to the SFO.

(9) The Controlling Group, which comprises the Management Shareholders, Mr. Pan Jinhong, Mr. Liu Xuezhong and Ms. Li Yuelan, together holds approximately 45.6% shareholdings in the Company upon Listing assuming that the Over-allotment Option is not exercised.

(ii) Interests in other members of our Group

Name of interested party	Nature of Interest	Name of other member of our Group	Number of shares/Amount of registered capital	Approximate percentage of shareholding
Saihong Industrial and Trading Co., Ltd (南京賽虹工貿有限公司) *(note 1)*	Beneficial owner	Ningkai	RMB5,822,000 (registered capital)	16.63%

Note:

(1) Saihong Industrial and Trading Co., Ltd is wholly-owned by two State-owned enterprises (namely Nanjing Zhixin Industrial and Trading Co., Ltd. (南京智鑫工貿公司) and Yuhua Meat Wholesale Market (雨花肉類批發市場)) which in turn are supervised and controlled by Nanjing Yuhuatai District Saihong Bridge Street Office, a PRC local governmental office.

RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

Individual members of the Controlling Group (comprising all the 14 Management Shareholders, Mr. Liu Xuezhong and his wife Ms. Li Yuelan, and Mr. Pan Jinhong) entered into a written confirmation on 10 April 2007 to confirm that they have had an arrangement ("Controlling Group Arrangement") throughout the Track Record Period, pursuant to which discussions were held amongst the Controlling Group to arrive at consensus on material voting and/ or business decisions (including financial and operating policies) of the Group. It is also confirmed that the exercise of the voting rights at the general meetings of NMED, NGID and NGC by the Controlling Group have been consistent since the beginning of the Track Record Period.

Members of the Controlling Group further entered into an agreement ("Pre-Emptive Rights Agreement") on 8 June 2007 with effect from the Listing in order to consolidate their control over the Company. Each member of the Controlling Group shall, among other things, have the right of first refusal to purchase Shares from the other members of the Controlling Group in accordance with the Pre-Emptive Rights Agreement. The Pre-Emptive Rights Agreement shall terminate upon the third anniversary of Listing. The price for the purchase of Shares pursuant to the exercise of pre-emptive rights shall be determined by reference to (i) in respect of a proposed off-market disposal, the price and terms offered to or by third party(ies); or (ii) in respect of a proposed on-market disposal, the closing price on the trading day immediately preceding the proposed date of disposal.

By virtue of the Controlling Group Arrangement and the Pre-Emptive Rights Agreement, members of the Controlling Group have acted as a group of controlling shareholders and have been maintaining a controlling status in the Group since 26 February 2004 (the date on which the Controlling Group controlled more than 50% voting rights in NGC) and will continue to be the controlling shareholders of the Company after the Listing.

Immediately following completion of the Global Offering (but without taking into account the Shares to be issued pursuant to exercise of the Over-allotment Option and the Capitalisation Issue), the Controlling Group will, in aggregate, be entitled to exercise or control the exercise of approximately 45.60% voting rights in general meetings of the Company, in which the Management Shareholders (who control Fortune Apex) will control approximately 27.45% voting rights, Mr. Liu Xuezhong and his wife Ms. Li Yuelan (who control Luckever) will control approximately 13.13% voting rights and Mr. Pan Jinhong (who controls Wiaearn) will control approximately 5.02% voting rights.

We believe that we are able to carry on our business independently of members of the Controlling Group and their respective associates after the Listing because (i) there is no competing business between the Controlling Group and us and each of the members of the Controlling Group has entered into non-compete undertakings in our favour; and (ii) apart from the lease between NGID (a PRC company controlled by the Controlling Group) and us with an annual rental of RMB1,100,000, no connected transaction with the Controlling Group and its associates is conducted.

Members of the Controlling Group have undertaken to the Stock Exchange that they will comply with Rule 10.07(1) of the Listing Rules. Please refer to "Underwriting — Underwriting arrangements and expenses — (a) Hong Kong Public Offering — Undertakings to the Stock Exchange pursuant to the Listing Rules" for further details.

NON-COMPETE UNDERTAKINGS

Each of the members of the Controlling Group has entered into the deed of non-competition dated 8 June 2007 in favour of our Company, pursuant to which members of the Controlling Group have undertaken, subject to the exceptions mentioned below, that they would not, and would procure that neither they nor their associates and/or companies controlled by them (other than the Group) would not directly or indirectly be interested in or engaged in any business which competes or is likely to compete directly or indirectly with the Group's business as set out in this prospectus, in the PRC and any other area in which the Group carries on business ("Restricted Activity").

The aforesaid undertakings do not apply with respect to the holding of or interests in shares or other securities in any company which conducts or is engaged in any Restricted Activity, provided that, in the case of such shares, they are listed on a recognised stock exchange and:

(a) the total number of the shares held by the Controlling Group and/or their associates does not amount to more than 5% of the issued shares of the company; and

(b) the Controlling Group and/or their associates are not entitled to appoint a majority of the directors or management of that company.

The non-competition undertaking and the rights and obligations thereunder are subject to and conditional upon the Global Offering becoming unconditional as specified under the section headed "Terms and Conditions of the Hong Kong Public Offering" of this prospectus.

The obligations of the Controlling Group under the deed of non-competition will remain in effect until:

(a) the date on which the Shares cease to be listed on the Stock Exchange; or

(b) the date on which the Controlling Group and their associates cease to own 10% or more of the then issued share capital of the Company directly or indirectly;

whichever occurs first.

Each of the members of the Controlling Group undertakes to our Company that he/she/it would, during the term of the deed of non-competition, indemnify and keep indemnified our Company and our Group against any loss suffered by our Company or our Group (as relevant) arising out of any breach of any of his/its undertakings under the deed of non-competition.

GE Capital will be interested in 5% shareholdings in our Company upon completion of the Global Offering assuming that the Over-allotment Option is not exercised and that the GE Additional Shares are fully allotted and issued to GE Capital. GE which wholly owns GE Capital indirectly is an international conglomerate with a wide range of businesses in different countries including, among other things, the production and the marketing of marine gears.

Templeton, being a Shareholder which will hold approximate 4.53% shareholdings in our Company upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised), is a fund managed by Templeton Asset Management Limited which in turn is a member of the Franklin Templeton group. Whilst Templeton does not have any interest in business that competes with the Group, the Franklin Templeton group may have interest in business which may compete or overlap with our Group.

New VPL Funds/Sub-Funds are investment funds managed or advised by Value Partners Limited and/or its subsidiaries (together, the "Value Partners Group") and will in aggregate hold approximate 7.86% shareholdings in our Company upon completion of the Global Offering (assuming that the Over-allotment Option is not exercised). The funds managed/advised by the Value Partners Group may have interest in business which may compete or overlap with our Group.

None of the controlling shareholders (being the Management Shareholders, Fortune Apex, Luckever Holdings Limited and Wiaearn Holdings Limited) and their respective associates (including NGID) currently have interests in any business that competes or is likely to compete with our Group.

The following discussion and analysis should be read in conjunction with the audited consolidated financial statements of NGC for the period from 1 January 2004 to 25 February 2004 and the audited consolidated financial statements of the Company for the period from 26 February 2004 to 31 December 2004 and each of the two years ended 31 December 2006, in each case with the related notes thereto, included elsewhere in this prospectus. The consolidated financial statements of NGC and the consolidated financial statements of the Company have been prepared in accordance with IFRS, which differ in certain significant respects from generally accepted accounting principles in certain other countries. For further information, see "Appendix IA — Accountants' Report of NGC" and "Appendix IB — Accountants' Report of the Company" Any discrepancies in any table or elsewhere in this prospectus between totals and sums of amounts listed herein are due to rounding.

Since NGC came under the control of the Controlling Group from 26 February 2004, the financial information of NGC for the period from 1 January 2004 to 25 February 2004 could not be included in the same accountants' report of the Company as that for the 2004 Period and the two years ended 31 December 2005 and 2006 for the Company. The Company has accordingly set out the financial information for NGC in a separate accountants' report in Appendix IA of this prospectus. As the period from 1 January 2004 to 25 February 2004 and the 2004 Period have not been combined into a single year pursuant to Rule 4.29 of the Listing Rules, for the year of 2004 there is only discussion relating to the 2004 Period and not the period from 1 January 2004 to 25 February 2004. As the period covered by the 2004 Period is different from the periods covered by the two years ended 31 December 2005 and 2006 respectively, such information is not directly comparable to information as at the years ended 31 December 2005 and 2006.

This discussion and analysis contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from those projected in the forward-looking statements. Factors that might cause future results to differ significantly from those projected in the forward-looking statements include, but are not limited to, those discussed below and elsewhere in this prospectus, particularly in "Risk Factors".

OVERVIEW OF OUR OPERATIONS

We are one of the leading mechanical transmission equipment producers in the PRC with a history dating back to 1969. According to the first edition of the Gear Market Information published by CGMA in 2007, we are the leading supplier of mechanical transmission equipment for wind turbines in the PRC, accounting for approximately 90% of the market share in the PRC in 2006. We were recognised by CGMA in the China Gear Industry Yearbook 2006 as one of the largest mechanical transmission equipment producers in the PRC in terms of reported sales revenue in 2005. We are engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment used in a wide range of industrial applications including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining.

Basis of Preparation

This prospectus includes two accountants' reports as Appendix IA and Appendix IB, respectively:

- Appendix IA is the accountants' report of NGC (our principal operating subsidiary), which includes the consolidated financial statements of NGC as at 25 February 2004 and for the period from 1 January 2004 to 25 February 2004; and

- Appendix IB is the accountants' report of the Company, which includes the consolidated financial statements of the Company as at 31 December 2004 and for the period from 26 February 2004 (the date on which the Controlling Group, namely the Management Shareholders (who wholly-own Fortune Apex), Mr. Pan Jinhong (who wholly-owns Wiaearn) and Mr. Liu Xuezhong and his wife, Ms. Li Yuelan (who wholly-own Luckever), controlled more than 50% voting rights in NGC and its subsidiaries) to 31 December 2004 and as at and for the two years ended 31 December 2005 and 2006.

We have included in this prospectus separate accountants' reports and summary financial data for both NGC and our Company because, in accordance with IFRS, the transactions comprising our acquisition of NGC and its subsidiaries (which was completed on 26 February 2004) have been treated as an acquisition using merger accounting. Accordingly, our results of operations for the 2004 Period (the period from 26 February 2004 to 31 December 2004) are not directly comparable to our results of operations for the two years ended 31 December 2005 and 2006. The results of NGC and its subsidiaries for the period from 1 January 2004 to 25 February 2004 could not be combined with the results of our Group for the remaining part of 2004 under the relevant accounting standards as the Controlling Group did not have the right to control NGC and its subsidiaries for the period from 1 January 2004 to 25 February 2004.

Our Company was incorporated on 22 March 2005 with share capital of US$900,000. It is a holding company and has no operations of its own. We conduct our business operations through NGC and our subsidiaries.

SIGNIFICANT FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Sales volume and sales mix

Our results of operations have been and are expected to continue to be substantially affected by our sales volume and our sales mix. Increases in our sales revenue and gross profit during the Track Record Period have largely been due to the overall increases in our sales volume and changes to our sales mix. Set out below is a breakdown of our products by sales volume and revenue for the 2004 Period and the two years ended 31 December 2006:

	NGC				The Group											
	For the period from 1 January 2004 to 25 February 2004				For the 2004 Period				For the year ended 31 December 2005				2006			
	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%
	(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)	
High-speed Series Gear Transmission Equipment	14.7	0.7	974.1	1.2	337.3	1.7	22,682.8	3.3	525.1	2.0	27,518.3	2.9	345.7	1.2	17,713.9	1.5
Gear Transmission Equipment for Construction Materials	1,203.1	52.3	35,118.4	44.2	9,810.8	49.4	285,881.0	41.5	10,691.7	40.5	307,767.5	32.5	6,788.0	24.0	195,434.4	16.5
General Purpose Gear Transmission Equipment	240.4	10.4	9,567.8	12.1	2,017.8	10.1	78,014.4	11.3	2,294.1	8.7	90,198.9	9.5	3,575.0	12.6	139,184.3	11.8
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	613.2	26.6	24,876.9	31.3	3,590.5	18.1	146,052.7	21.2	7,574.6	28.7	301,021.7	31.8	7,137.7	25.2	289,162.5	24.4
Wind Gear Transmission Equipment	—	—	—	—	9.7	0.1	655.9	0.1	388.3	1.4	26,525.6	2.8	4,742.4	16.8	317,743.3	26.8
Marine Gear Transmission Equipment	—	—	—	—	—	—	—	—	13.0	0.1	717.9	0.1	58.0	0.2	3,167.9	0.3
Others *(note)*	230.1	10.0	8,874.9	11.2	4,107.4	20.6	155,578.0	22.6	4,902.0	18.6	192,936.5	20.4	5,671.5	20.0	221,900.8	18.7
Total	2,301.5	100.0	79,412.1	100.0	19,873.5	100.0	688,864.8	100.0	26,388.8	100.0	946,686.4	100.0	28,318.3	100.0	1,184,307.1	100.0

Note: The following table sets forth a breakdown of our sales volume and revenue generated from sales of other mechanical transmission equipment.

	NGC				The Group											
	For the period from 1 January 2004 to 25 February 2004				For the 2004 Period				For the year ended 31 December							
									2005				2006			
	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%	Sales volume	%	Revenue	%
	(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)		(tons)		(RMB in thousands)	
Others																
Mechanical transmission equipment for rubber production	7	3.0	265.0	3.0	135	3.3	5,082.9	3.3	90	1.8	3,149.9	1.6	218	3.8	7,415.6	3.3
Mechanical transmission equipment for mixers	18	7.8	585.5	6.6	611	14.9	19,567.5	12.6	360	7.3	10,248.7	5.3	609	10.8	16,826.9	7.6
Mechanical transmission equipment for coupling machines	3	1.3	106.3	1.2	17	0.4	656.0	0.4	43	0.9	1,712.3	0.9	27	0.5	1,094.0	0.5
Customised mechanical transmission equipment and related spare parts	123	53.5	4,563.7	51.4	2,132	51.9	79,231.8	50.9	2,711	55.3	105,436.7	54.6	3,584	63.2	146,525.6	66.0
Spare parts	79	34.3	3,354.4	37.8	1,160	28.2	49,079.2	31.5	1,646	33.6	70,334.0	36.5	1,229	21.7	49,866.0	22.5
Engineering gears	—	—	—	—	—	—	—	—	11	0.2	496.6	0.3	4	0.1	172.7	0.1
Locomotive gears	—	—	—	—	52	1.3	1,960.6	1.3	41	0.9	1,558.3	0.8	—	—	—	—
Total	230	100.0	8,874.9	100.0	4,107	100.0	155,578.0	100.0	4,902	100.0	192,936.5	100.0	5,671	100.0	221,900.8	100.0

Our ability to design and develop mechanical transmission equipment that satisfies the requirements of our customers

In general, our customers have specific requirements for the mechanical transmission equipment they buy. As our customers' products improve and evolve, their specifications typically change as well. Our ability to design and develop new products that meet these changing requirements has been and will continue to be critical to our ability to maintain and increase our sales volumes and profitability. As a result, we expect to continue to make significant investments in research and development, particularly with respect to our Wind Gear Transmission Equipment.

Changes in demand for our customers' products, including changes in demand caused by changes in the conditions of the industries in which our customers operate

Our products are components of our customers' products. As a result, demand for our products is affected by demand for our customers' products. For example, the increase in sales of our Wind Gear Transmission Equipment during the Track Record Period was largely due to the general increase in demand for wind power, which was the result of several factors including regulatory developments encouraging the use of renewable energy. We expect sales of our Wind Gear Transmission Equipment to constitute an increasing proportion of our revenue in the future. Meanwhile, our sales of Gear Transmission Equipment for Construction Materials have declined from RMB285.9 million for the 2004 Period to RMB195.4 million in 2006, primarily due to the downward pressure on the construction industry largely as a result of PRC government policies aimed at slowing growth in the cement industry. While we have and will continue to adjust our product mix by altering the application of our machinery and altering our manufacturing process in response to changes in market conditions or trends, significant changes in demand for our customers' products, including changes in demand caused by economic, regulatory or regional factors, will have a material impact on our results of operations.

Because substantially all of our revenue during the Track Record Period was generated from customers in the PRC, our results of operations have been significantly impacted by the state of the PRC economy. However, we believe the contribution of sales revenue generated from international customers will increase because of increased demand for our Wind Gear Transmission Equipment and Marine Gear Transmission Equipment.

Our ability to maintain low production and raw material costs

Our production facilities are located in the PRC, where costs of labour, land, transportation and other utilities are lower compared with other developed countries where some of our international competitors are located. As a result, we believe we are able to produce and sell technologically advanced products with lower prices compared to similar products produced by major international mechanical transmission equipment manufacturers.

A significant component of our cost of goods sold is cost for our raw materials, primarily forged steel, bearings, cast iron and steel plates. Our costs for cast iron, forged steel and other raw materials constituted 59.1%, 58.0% and 62.7%, respectively, of our total cost of goods sold for the 2004 Period and the two years ended 31 December 2006. The cost of raw materials is one of the factors that affect the pricing of our products. In particular, prior to bidding for a contract to supply customised mechanical transmission equipment, we consider the cost of our raw materials and factor that into our bid.

To secure a stable supply of raw materials for our operating needs we intend to invest in production facilities (through a joint venture or otherwise) to manufacture raw materials for critical components (such as forged steel and cast iron products) for our products. Through such investment, we hope to lower our production costs in the future. We plan to use 5.0% of the net proceeds from the Global Offering to invest in production facilities to manufacture raw materials for critical components (such as forged steel and cast iron products) for our products.

Although the prices of our raw materials did not fluctuate significantly during the Track Record Period, any significant fluctuation in the future could impact our results of operations. We have not entered into any hedging contracts to fix the prices of our raw materials. Please refer to the section headed "Business — Supplies of Raw Materials" for further information in relation to the price fluctuation of our major raw materials.

Expansion of our operations

We intend to increase the variety and volume of products we sell, particularly with respect to our Wind Gear Transmission Equipment, Marine Gear Transmission Equipment and mechanical transmission equipment used for light-rail and high-speed trains. Pursuant to this strategy, in 2007, we intend to spend a total of RMB582.6 million on capital expenditure, including RMB248.3 million to increase our capacity to produce Wind Gear Transmission Equipment, RMB150.8 million to increase our capacity to produce Marine Gear Transmission Equipment and RMB50.0 million to increase our capacity to produce mechanical transmission equipment for the light rails and high-speed rails. Whenever we purchase new equipment, or begin to manufacture a new product, it takes time for our operations to reach full capacity because of additional training that is required to operate the new machinery, or manufacture the new product, among other reasons. In addition, our labour costs usually increase if we hire additional employees to operate the new machinery. As a result, although we expect increasing our sales volumes will increase our revenues, our gross profit margins may be adversely affected during the initial stages of such new operations.

In addition, when we offer a new type of mechanical transmission equipment for which we are not an established supplier, we may need to offer better prices than our competitors in order to increase our market share. We have utilised this strategy since 2004 in order to increase our sales of Wind Gear Transmission Equipment. We expect that as we become a more established supplier of wind power products, we will not continue this type of market penetration strategy.

Taxes

Our subsidiaries established in the PRC were generally subject to the statutory corporate income tax at the rate of 33% in 2006. However, on 15 December 2005 and 11 May 2006, respectively, certain of our subsidiaries, NGC and Ningjiang, were reorganised and converted into foreign-invested enterprises and under Article 8 of the Income Tax Law of the People's Republic of China for Enterprises with Foreign Investment and Foreign Enterprises, adopted at the Fourth Session of the Seventh National People's Congress on 9 April 1991, promulgated by Order No. 45 of the President of the People Republic of China on 9 April 1991 and effective as of 1 July 1991 (the "Income Tax Law"), they are now entitled to preferential tax treatments in the PRC, including tax "holidays" for two years from the first year of profit-making and a 50% discount to the then tax rate for three subsequent years. The tax "holidays" of NGC and Ningjiang commenced in 2006, being their first year of profit-making since they became foreign invested enterprises. As a result, the tax expenses for NGC and Ningjiang decreased by RMB13.7 million and RMB3.0 million for the year ended 31 December 2006 respectively. In addition, as a result of being approved to be a "Technologically Advanced Enterprise" and registered in a designated development zone in the PRC, NGC also enjoyed a preferential income tax rate of 15% during the Track Record Period.

One of our other subsidiaries, Nanjing High Speed, was also entitled to exemptions from the PRC enterprise income tax for the first two years from the first year of profit-making and a preferential income tax rate of 15% afterwards because it was approved to be a "Technologically Advanced Enterprise" and registered in a high-technology development zone. Nanjing High Speed received the income tax "holidays" for the two years ended 31 December 2005. During the Track Record Period, the tax expenses of Nanjing High Speed decreased by RMB12.2 million, RMB11.0 million and RMB15.9 million for the 2004 Period and the two years ended 31 December 2006 respectively. Please refer to Note 8 to our consolidated financial statements included in this prospectus for details of the respective preferential treatments for each of these subsidiaries. The following table summarises the enterprise tax rates applicable to all of our operating subsidiaries during the Track Record Period:

		Applicable enterprise income tax rates		
No.	**Subsidiary name**	**For the 2004 Period**	**For the year ended 31 December 2005**	**For the year ended 31 December 2006**
1	NGC	15%	15%	15%
2	Nanjing High Speed *(note 1)*	15%	15%	15%
3	Nanjing Dongalloy	33%	15%	15%
4	Ningjiang *(note 2)*	15%	15%	15%
5	Ningkai	33%	33%	33%
6	Nanjing Wind Power *(note 3)*	n/a	33%	33%
7	Shenyang Sales	33%	33%	33%
8	Yongte	33%	33%	33%
9	Ningtai	33%	33%	33%
10	南京高精重載齒輪箱製造有限公司 (Nanjing Heavy Gear Manufacturing Co., Ltd.) *(note 4)*	33%	33%	n/a
11	Nanjing Ningjin Complete Set of Flying Share Equipment Co., Ltd. *(note 5)*	33%	33%	n/a
12	Nanjing Ninghang Heavy Duty Gear Box Co., Ltd. *(note 6)*	33%	33%	n/a
13	南京景元置業房地產有限公司 (Nanjing Jingyuan Properties Co., Ltd.) *(note 7)*	n/a	33%	n/a

Note 1: The date of approval of the relevant tax bureau for the preferential tax rate for Nanjing High Speed was 13 April 2004.

Note 2: The date of approval of the relevant tax bureau for the preferential tax rate for Ningjiang was 29 April 2005.

Note 3: Nanjing Wind Power was established on 7 March 2005.

Note 4: 南京高精重載齒輪箱製造有限公司 (Nanjing Heavy Gear Manufacturing Co., Ltd.) was deregistered on 25 August 2006.

Note 5: Nanjing Ningjin Complete Set of Flying Share Equipment Co., Ltd. was deregistered on 8 September 2006.

Note 6: Nanjing Ninghang Heavy Duty Gear Box Co., Ltd. was deregistered on 22 August 2006.

Note 7: 南京景元置業房地產有限公司 (Nanjing Jingyuan Properties Co., Ltd.) was established on 21 October 2005 and was disposed of on 3 January 2006.

Note 8: Value added tax and business tax at the rate of 17% and 5% respectively are applicable to all enterprises in the above table. However, only enterprises numbered 1 to 9 and numbered 1, 2, 4, 5 and 9 were subject to value added tax and business tax respectively during the Track Record Period.

During the Track Record Period, most of our profit before taxation was subject to the above-mentioned preferential tax treatments, which significantly reduced our taxation expenses. Our effective tax rates were lower than the statutory tax rates in the PRC because the majority of our profit before tax for the 2004 Period and the two years ended 31 December 2006, respectively, was generated from NGC. NGC receives preferential tax treatment under the Income Tax Law and is registered in a designated development zone.

On 16 March 2007, the National People's Congress of the PRC promulgated and adopted the new Income Tax Law which imposes an uniform enterprise income tax rate of 25% to all domestic enterprises and foreign-invested enterprises in the PRC. The new law contemplates various transitional periods and measures for the treatment of existing preferential tax policies given to, among others, foreign-invested enterprises in the PRC which will be effected through the enactment of implementation rules. As the implementation rules have not been released, we are currently unable to determine whether and how we will be affected by the unification of enterprise income tax in the PRC because it is unclear as to how the unification will affect new and high-technology enterprises in the PRC. There is no assurance that our tax position would not be materially and adversely affected by the new Income Tax Law and the implementation rules thereof when they come into effect on 1 January 2008.

Our results of operations are subject to cyclical fluctuations

Our sales are subject to cyclical fluctuations during the year. Generally, our sales are higher in the last two quarters of the year than in the first two quarters of the year, but they may vary considerably from time to time as a result of changes in customer demand.

As a result of the cyclicality of our business, our results of operations may fluctuate from quarter to quarter. An analysis of our interim financial performance may not be indicative of our full-year results due to the cyclicality of our sales. We believe the cyclical fluctuations in our results of operations will continue in the future.

CRITICAL ACCOUNTING POLICIES

Critical accounting policies are those that require management to exercise judgment and make estimates that yield materially different results if management were to apply different assumptions or make different estimates. Our financial statements have been prepared in accordance with IFRS. Our principal accounting policies are set forth in Note 3 to NGC's financial statements, attached as Appendix IA to this prospectus, and in Note 3 to our Company's financial statements, attached as Appendix IB to this prospectus. IFRS requires that we adopt accounting policies and make estimates that our Directors believe are most appropriate in the circumstances for the purpose of giving a true and fair view of our results and financial condition. We believe the most complex and sensitive judgments, because of their significance to our results of operations and financial condition, result primarily from the need to make estimates about the effects of matters that are inherently uncertain. Actual results in these areas could differ from our estimates. The critical accounting policies we have adopted are described below.

Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to our Group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duty. The following specific recognition criteria must also be met before revenue is recognised:

(a) ***Sale of goods***

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer;

(b) ***Interest income***

On a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable; and

(c) ***Dividend income***

When the shareholders' right to receive payment has been established.

Inventory and inventory allowance

Inventories are valued at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour, and an appropriate proportion of overheads.

Net realisable value represents the estimated selling price for inventories in the ordinary course of business less estimated costs of completion and costs necessary to make the sale.

We do not have a general allowance policy for inventory based on aging given our inventories are not subject to frequent wear and tear or frequent technological changes. However, operational procedures have been implemented to monitor this risk as a substantial part of our working capital is devoted to inventories. We regularly review the market value of our inventories based on our estimate of future demand for our products and other market conditions. We also perform annual inventory stock take by which we identify obsolete items. Allowance is made against inventories when the net realisable value of inventories falls below the cost or any of the inventories is identified obsolete.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment in value.

The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the property, plant and equipment, the expenditure is capitalised as an additional cost of that asset.

Depreciation of property, plant and equipment is calculated on the straight-line basis over the expected useful life of the assets, after taking into account their estimated residual value which are the accounting estimates made by management, as follows:

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%

The carrying values of property, plant and equipment are reviewed for impairment either annually, or when events or changes in circumstances indicate that the carrying values may not be recoverable (whichever is earlier). If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets or cash-generating units are written down to their recoverable amounts. The recoverable amount of property, plant and equipment is the greater of the net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash flow, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognised in the income statement.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year end.

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

Construction in progress represents property, plant and machinery under construction or machinery in transit and is stated at cost less any impairment losses. The purchase period of an asset includes the period when the asset is under construction, installation and testing.

Construction in progress is transferred to the appropriate category of property, plant and equipment when it is completed and ready for its intended use. No depreciation is provided on construction in progress until the asset is completed and is ready for its intended use.

Research and development costs

Research costs are expensed as incurred.

An intangible asset arising from development expenditure on an individual project is recognised only when we can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, the intention to complete and the ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development.

Impairment for doubtful debts

Impairment for doubtful debts is made based on the evaluation of recoverability, aging analysis of receivable and the judgment of our management on a case-by-case basis. We continue to attempt to collect account receivables from our customers even after the credit period and our staff will follow up with these customers and request payment from them. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and subsequent collection. We will only deem trade receivables uncollectible upon careful consideration after having attempted to collect the same from our customers and by reference to the aforementioned factors, appropriate impairment will be recognised in our accounts. In line with industrial practice, trade receivables aged over three years are generally deemed to be uncollectible or unlikely to be collectible.

Our trade receivables partly comprise retention monies retained by our customers to secure our performance of obligations during the warranty period of our products. Provisions are made when the retention monies have not been recovered after the expiry of the warranty period. Notwithstanding the provisions, we always endeavour to collect the overdue retention monies from our customers.

RESULTS OF OPERATIONS

The following discussion addresses the principal trends that have affected our results of operations during the periods under review. The following table sets forth the results of operations of NGC for the period indicated and the results of operations of our Group for the periods indicated.

	NGC	The Group		
	For the period from 1 January 2004 to 25 February 2004	For the 2004 Period	For the year ended 31 December 2005	For the year ended 31 December 2006
	(audited)	(audited)	(audited)	(audited)
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
Revenue	79.4	688.9	946.7	1,184.3
Cost of goods sold	(49.5)	(489.7)	(672.1)	(843.5)
Gross profit	29.9	199.2	274.6	340.8
Other income	1.4	9.7	14.3	23.3
Discount on acquisition of an additional interest in a subsidiary	—	6.5	—	—
Distribution costs	(5.3)	(31.6)	(44.2)	(55.7)
Administrative expenses	(13.6)	(85.1)	(102.6)	(137.5)
Research and development costs	—	(4.2)	(8.3)	(14.7)
Finance costs	(2.6)	(13.5)	(21.2)	(41.5)
Share of loss of an associate	—	—	—	(0.8)
Changes in fair value of convertible bonds	—	—	—	(20.1)
Profit before taxation	9.8	81.0	112.6	93.7
Taxation	(2.2)	(2.2)	(13.3)	(3.5)
Profit for the period/year	7.6	78.8	99.3	90.2
Attributable to:				
Equity holders of NGC/the Company	7.4	37.8	81.7	85.6
Minority interest	0.2	41.0	17.6	4.6
	7.6	78.8	99.3	90.2
Dividend attributable to *(note 1)*:				
Equity holders of NGC/the Company	—	—	50.0	86.0
Minority interest	—	—	14.3	—
	—	—	64.3	86.0
Earnings per Share - basic (RMB) *(note 2)*	N/A	0.30	0.17	0.14

Notes:

(1) Our subsidiary, NGC, declared dividends in the amount of RMB50.0 million during the year ended 31 December 2005. NGC paid the RMB50.0 million dividends during the year ended 31 December 2005 from its distributable profits for the year ended 31 December 2004. In 2006, NGC paid dividends in the amount of RMB86.0 million from its distributable profits for the year ended 31 December 2005. NGC declared dividends in the amount of RMB58.8 million for the year ended 31 December 2006 to the Company on 26 February 2007. We paid dividends to our Shareholders in the amount of US$4.5 million in May 2007. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the discretion of our Board subject to Shareholders' approval.

(2) Basic earnings per share were arrived at by dividing the profit for the period/year attributable to equity holders of the parent by the weighted average number of outstanding shares during the period/year.

Revenue

Revenue represents revenue generated from the sales of our various types of mechanical transmission equipment. Our mechanical transmission equipment is used in a wide range of industries, including power, metallurgy, construction materials production, locomotives, marine and wind energy. Revenue is net of returns, discounts and sales taxes. The table below sets forth the revenue of NGC for the period indicated and of our Group for the periods indicated by main product categories, which are also expressed as a percentage of total revenue for the periods indicated.

	NGC		The Group					
	For the period from 1 January 2004 to 25 February 2004		For the 2004 Period		For the year ended 31 December			
					2005		2006	
	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%
Revenue								
High-speed Series Gear Transmission Equipment	974.1	1.2	22,682.8	3.3	27,518.3	2.9	17,713.9	1.5
Gear Transmission Equipment for Construction Materials	35,118.4	44.2	285,881.0	41.5	307,767.5	32.5	195,434.4	16.5
General Purpose Gear Transmission Equipment	9,567.8	12.1	78,014.4	11.3	90,198.9	9.5	139,184.3	11.8
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	24,876.9	31.3	146,052.7	21.2	301,021.7	31.8	289,162.5	24.4
Wind Gear Transmission Equipment	—	—	655.9	0.1	26,525.6	2.8	317,743.3	26.8
Marine Gear Transmission Equipment	—	—	—	—	717.9	0.1	3,167.9	0.3
Others *(note)*	8,874.9	11.2	155,578.0	22.6	192,936.5	20.4	221,900.8	18.7
Total	79,412.1	100.0	688,864.8	100.0	946,686.4	100.0	1,184,307.1	100.0

Note: The following table sets forth a breakdown of our revenue generated from sales of other mechanical transmission equipment.

	NGC		The Group					
	For the period from 1 January 2004 to 25 February 2004		For the 2004 Period		For the year ended 31 December			
					2005		2006	
	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%
Others								
Mechanical transmission equipment for production of plastic and rubber	265.0	3.0	5,082.9	3.3	3,149.9	1.6	7,415.6	3.3
Mechanical transmission equipment for mixers	585.5	6.6	19,567.5	12.6	10,248.7	5.3	16,826.9	7.6
Mechanical transmission equipment for coupling machines	106.3	1.2	656.0	0.4	1,712.3	0.9	1,094.0	0.5
Customised mechanical transmission equipment and related spare parts	4,563.7	51.4	79,231.8	50.9	105,436.7	54.6	146,525.6	66.0
Spare parts	3,354.4	37.8	49,079.2	31.5	70,334.0	36.5	49,866.0	22.5
Engineering gears	—	—	—	—	496.6	0.3	172.7	0.1
Locomotive gears	—	—	1,960.6	1.3	1,558.3	0.8	—	—
Total	8,874.9	100.0	155,578.0	100.0	192,936.5	100.0	221,900.8	100.0

During the periods under review, the mix and proportion of our products have changed. For the 2004 Period and the year ended 31 December 2005, revenue from the sales of our Gear Transmission Equipment for Construction Materials and Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills were the key components of our total revenue and, collectively, accounted for 62.7% and 64.3%, respectively, of our total revenue. Historically, our efforts were concentrated on the sales and production of these mechanical transmission equipment products. For the year ended 31 December 2006, the key components of our total revenue became more evenly distributed, with five of our seven product categories each accounting for between 11.8% and 26.8% of our total revenue. Revenue from the sales of our Gear Transmission Equipment for Construction Materials, however, decreased from 41.5% to 32.5% and then to 16.5%, respectively, during the 2004 Period and the two years ended 31 December 2006, primarily due to the downward pressure on the construction industry largely as a result of PRC government policies aimed at slowing growth of the cement industry, the primary industry in which our Gear Transmission Equipment for Construction Materials is used. In contrast, revenue from the sales of our Wind Gear Transmission Equipment increased significantly from 0.1% for the 2004 Period, to 2.8% for the year ended 31 December 2005, and then to 26.8% for the year ended 31 December 2006, reflecting the success of our strategy to develop our market share in the wind power industry, the increasing significance of our Wind Gear Transmission Equipment and the increase in demand for wind power.

Cost of goods sold

Cost of goods sold consists of costs for cast iron and forged steel, other raw materials (primarily steel-related raw materials), outsourced processing, manufacturing costs, labour, and power. As indicated in the table below, the main factors affecting our cost of goods sold are the costs incurred for procuring cast iron, forged steel and other raw materials and costs incurred in connection with outsourced processing:

	NGC		The Group					
	For the period from 1 January 2004 to 25 February 2004		For the 2004 Period		For the year ended 31 December 2005		For the year ended 31 December 2006	
	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%	(audited) (RMB in thousands)	%
Cast iron and forged steel	11,605.4	23.5	114,884.5	23.5	209,226.7	31.2	299,934.0	35.6
Other raw materials (note)	17,621.3	35.6	174,437.6	35.6	180,294.9	26.8	229,078.1	27.1
Outsourced processing	13,129.1	26.5	129,968.5	26.5	172,913.7	25.7	172,059.6	20.4
Direct labour	2,054.6	4.2	20,338.4	4.2	28,593.9	4.2	36,101.8	4.3
Manufacturing overheads (including indirect labour)	4,198.9	8.5	41,566.8	8.5	66,654.5	9.9	89,814.0	10.6
Power	854.7	1.7	8,460.5	1.7	14,390.6	2.2	16,556.4	2.0
Total	49,464.0	100.0	489,656.3	100.0	672,074.3	100.0	843,543.9	100.0

Note: The following table sets forth a breakdown of our costs for our other raw materials.

	NGC	The Group		
	For the period from 1 January 2004 to 25 February 2004	For the 2004 Period	For the year ended 31 December 2005	For the year ended 31 December 2006
	(audited) (RMB in thousands)	(audited) (RMB in thousands)	(audited) (RMB in thousands)	(audited) (RMB in thousands)
Bearings	7,700.0	78,799.4	79,795.9	128,756.0
Steel plates	4,398.1	50,166.1	41,084.3	38,534.4
Others	5,523.2	45,472.1	59,414.7	61,787.7
Total	17,621.3	174,437.6	180,294.9	229,078.1

Note: Please refer to the section headed "Business — Suppliers of Raw Materials" of this prospectus for information on the average prices for our major raw materials.

Cast iron and forged steel costs constituted an increasing share of total cost of goods sold, increasing from 23.5% to 31.2% and 35.6% for the 2004 Period and the two years ended 31 December 2006. For the year ended 31 December 2005, our cast iron and forged steel costs increased primarily due to the increase in sales of our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills. For the year ended 31 December 2006, our cast iron and forged steel costs increased primarily due to the increase in sales of our Wind Gear Transmission Equipment. Costs for other raw materials accounted for 35.6%, 26.8% and 27.1% of our total cost of production for the 2004 Period and the two years ended 31 December 2006, respectively, and consisted primarily of bearings and steel plates. Costs incurred from outsourced processing were 26.5%, 25.7% and 20.4% of our total cost of goods sold during that same period and were incurred primarily to process certain raw materials which required a manufacturing process we could not offer or when our production capacity at particular times was fully utilised. Direct labour costs include wages and salaries for our workers directly involved in the production and manufacturing process. Manufacturing overheads consist primarily of depreciation, and include salaries and wages of our other factory workers not directly involved in the manufacturing process.

Gross profit and gross profit margin

Gross profit is our revenue minus our cost of goods sold. Our gross profit margin during the 2004 Period and the two years ended 31 December 2006, was 28.9%, 29.0% and 28.8%, respectively. Our overall gross profit margin increased from 28.9% for the 2004 Period, to 29.0% for the year ended 31 December 2005, largely due to the increase in the gross profit margins of our General Purpose Gear Transmission Equipment and other mechanical transmission equipment, partially offset by the decrease in gross profit margin of our High-speed Series Gear Transmission Equipment. Our gross profit margin decreased from 29.0% for the year ended 31 December 2005, to 28.8% for the year ended 31 December 2006, mainly because of the decrease in gross profit margin of our other mechanical transmission equipment as a result of increased cost of goods sold, respectively. The following table breaks down our gross profit and gross profit margin by product during the Track Record Period.

	NGC		The Group					
	For the period from 1 January 2004 to 25 February 2004		For the 2004 Period		For the year ended 31 December 2005		For the year ended 31 December 2006	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin	Gross profit	Gross profit margin
	(RMB in thousands)	%	(RMB in thousands)	%	(RMB in thousands)	%	(RMB in thousands)	%
High-speed Series Gear Transmission Equipment	403.0	41.4	14,490.3	63.9	10,116.7	36.8	6,284.3	35.5
Gear Transmission Equipment for Construction Materials	14,823.2	42.2	84,632.6	29.6	90,979.0	29.6	62,705.5	32.1
General Purpose Gear Transmission Equipment	3,028.4	31.7	20,861.2	26.7	29,945.1	33.2	48,896.2	35.1
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	7,536.6	30.3	37,885.2	25.9	77,932.0	25.9	94,278.9	32.6
Wind Gear Transmission Equipment	—	—	63.7	9.7	2,764.6	10.4	84,959.3	26.7
Marine Gear Transmission Equipment	—	—	—	—	353.9	49.3	307.3	9.7
Others	4,156.9	46.8	41,275.5	26.5	62,521.1	32.4	43,331.7	19.5
Total	29,948.1	37.7	199,208.5	28.9	274,612.4	29.0	340,763.2	28.8

Our steady gross profit margins during the Track Record Period indicate our ability to adjust our product mix in view of the changes in demand of our products both locally and abroad in order to sustain the overall level of our gross profit margin while increasing our overall gross profit.

Other income

Other income primarily consists of sales of scrap metal, government subsidies as a result of our operations in certain industries, such as the wind power industry, as well as for research and development in technological upgrades and interest income. Scrap metal comprises of various amounts of high quality steel left over after our manufacturing process is completed. Income from the sales of scrap metal represented 40.0%, 55.6% and 39.1% of our other income during the 2004 Period, and the two years ended 31 December 2005 and 2006, respectively. The price at which we sell our scrap metal reflects the prevailing price of steel and, accordingly, the amount of other income generated by sales of scrap metal will depend on the price of steel and the volume of our production.

Distribution costs

Our distribution costs primarily consist of wages, freight and delivery charges and packaging expenses. Freight and delivery charges relate to the expenses incurred in delivering our products to our customers.

Administrative expenses

Administrative expenses primarily consist of salaries and benefits for administrative staff and non-factory employees, professional fees and impairment losses of inventory and bad debts expenses. Non-factory employees are employees who are not engaged in production including those from our safety and environmental department.

The following table provides a breakdown of our major administrative expenses during the Track Record Period:

	NGC		**The Group**					
	For the period from 1 January 2004 to 25 February 2004		**For the 2004 Period**		**For the year ended 31 December 2005**		**For the year ended 31 December 2006**	
	(RMB in millions)	**%**	**(RMB in millions)**	**%**	**(RMB in millions)**	**%**	**(RMB in millions)**	**%**
Salary and other benefits for non-factory employees	7.9	57.7	45.2	53.1	67.1	65.4	82.4	59.9
Miscellaneous office expenses	1.3	9.5	6.7	7.9	5.6	5.5	17.7	12.9
Professional fees	1.3	9.5	10.0	11.7	11.0	10.7	15.5	11.3
Impairment of inventory and bad debt expense	1.0	5.1	10.1	11.9	8.0	7.8	9.2	6.7
Others	2.1	18.2	13.1	15.4	10.9	10.6	12.6	9.2
Total	13.6	100.0	85.1	100.0	102.6	100.0	137.5	100.0

Finance costs

Finance costs consist of interest expenses on bank loans.

Changes in fair value of convertible bonds

We issued the Convertible Bonds to the Pre-IPO Investors in the principal amount of US$28,000,000 on 26 January 2006. The Convertible Bonds were converted into Shares on 22 December 2006. Changes in fair value of convertible bonds reflect the change in the fair value of the Convertible Bonds from their issue date, 26 January 2006, to their conversion date, 22 December 2006. The change in fair value of the Convertible Bonds was determined on an independent basis by Greater China Appraisal Limited.

Research and development costs

Our research and development costs represent the amounts we committed to research, design and development of our products. Our research and development costs amounted to RMB4.2 million, RMB25.2 million and RMB30.9 million for the 2004 Period and the two years ended 31 December 2006 respectively, part of which has been capitalised. We intend to invest in research, design and development for our business going forward.

YEAR ENDED 31 DECEMBER 2006 COMPARED TO YEAR ENDED 31 DECEMBER 2005

Revenue

Revenue for the year ended 31 December 2006 increased by RMB237.6 million, or 25.1%, to RMB1,184.3 million from RMB946.7 million for the year ended 31 December 2005. The primary factor driving this increase was the increase in revenue generated from sales of our Wind Gear Transmission Equipment, which increased by RMB291.2 million, or 1,097.9%, to RMB317.7 million for the year ended 31 December 2006, from RMB26.5 million for the year ended 31 December 2005. Revenue generated from sales of our Wind Gear Transmission Equipment increased because we increased our sales volume to 4,742.4 tons for the year ended 31 December 2006, from 388.3 tons for the year ended 31 December 2005, despite the fact that our average selling price for this product decreased by 1.9%. Such increase was in line with our strategy to develop our capability to produce Wind Gear Transmission Equipment and increase our presence in this market. In addition, a critical factor driving the increase in the sales volume of our Wind Gear Transmission Equipment was the rapid construction of windmills throughout China. The decrease in the average selling price was also in line with our strategy, as a newcomer in this area, to offer better prices to build up our market position more quickly.

A RMB49.0 million increase in revenue generated from sales of our General Purpose Gear Transmission Equipment also contributed to the increase in our revenue for the year ended 31 December 2006. Despite a 1.0% decrease in average selling price, revenue from our General Purpose Gear Transmission Equipment increased primarily due to a 55.8% increase in volume sold. Revenue also increased because of a RMB29.0 million increase in revenue generated from sales of our other mechanical transmission equipment, primarily consisting of mechanical transmission equipment for mixers, mechanical transmission equipment for rubber production and customised mechanical transmission equipment. Revenue for sales of our other mechanical transmission equipment increased despite a 0.6% decrease in average selling price due to a 769.5 ton increase in volume sold. These increases were partially offset by decreases in revenue from sales of our Gear Transmission Equipment for Construction Materials, Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills and High-Speed Series Gear Transmission Equipment. Revenue from Gear Transmission Equipment for Construction Materials decreased by RMB112.3 million due to a 3,903.7 ton decrease, or 36.5%, in volume sold as a result of PRC Government policies designed to slow growth in the cement industry, the primary industry in which our Gear Transmission Equipment for Construction Materials is used.

Cost of goods sold

Cost of goods sold increased by RMB171.4 million, or 25.5%, to RMB843.5 million for the year ended 31 December 2006, from RMB672.1 million for the year ended 31 December 2005. This increase was primarily due to the substantial increase in sales volume for our Wind Gear Transmission Equipment, resulting in a RMB209.0 million increase in cost of goods sold for our Wind Gear Transmission Equipment. The increase was largely driven by increased purchases of RMB82.0 million of cast iron and forged steel and RMB84.3 million of other raw materials to manufacture our Wind Gear Transmission Equipment in line with our strategy to develop our Wind Gear Transmission Equipment business which led to a significant increase in the revenue derived from sales of our Wind Gear Transmission Equipment. This increase in costs was partially offset by a RMB84.1 million decrease in the cost of goods sold incurred in connection with decreased sales volume of our Gear Transmission Equipment for Construction Materials.

During the year ended 31 December 2006, we continued to gradually change the raw materials we use to make the welded housing for our mechanical transmission equipment from steel plates to cast iron. As a result, the cost of other raw materials as a percentage of the total cost of goods sold remained relatively stable from 26.8% for the year ended 31 December 2005 to 27.1% for the year ended 31 December 2006, notwithstanding a 25.1% increase in our sales during the same period. At the same time, the proportion of the costs of cast iron and forged steel to the total cost of goods sold increased from 31.2% to 35.6% during the same period.

Gross profit and gross profit margin

Our gross profit for the year ended 31 December 2006 was RMB340.8 million, an increase of RMB66.2 million, or 24.1%, from RMB274.6 million for the year ended 31 December 2005.

Gross profit of our High-speed Series Gear Transmission Equipment decreased by RMB3.8 million, or 37.9%, from RMB10.1 million for the year ended 31 December 2005 to RMB 6.3 million for the year ended 31 December 2006, largely due to a 34.2% decrease in volume sold. Gross profit margin for our High-speed Series Gear Transmission Equipment also decreased to 35.5% for the year ended 31 December 2006 from 36.8% for the year ended 31 December 2005 as cost of goods sold and revenue decreased by 34.4% and 35.6% respectively.

Gross profit of our Gear Transmission Equipment for Construction Materials decreased by RMB28.3 million, or 31.1%, from RMB91.0 million for the year ended 31 December 2005 to RMB62.7 million for the year ended 31 December 2006 due to a decrease in volume sold. Despite this decrease, gross profit margin for our Gear Transmission Equipment for Construction Materials increased to 32.1% for the year ended 31 December 2006 from 29.6% for the year ended 31 December 2005. The decrease in sales volume contributed to a 36.5% decrease in revenue and a 38.8% decrease in cost of goods sold, leading gross profit margin to increase notwithstanding decreases in volume sold and revenue.

Gross profit of our General Purpose Gear Transmission Equipment increased by RMB19.0 million, or 63.3%, from RMB29.9 million for the year ended 31 December 2005 to RMB48.9 million for the year ended 31 December 2006, largely due to a 55.8% increase in volume sold. Gross profit margin for our General Purpose Gear Transmission Equipment increased slightly to 35.1% for the year ended 31 December 2006 from 33.2% for the year ended 31 December 2005. As revenue generated from sales and cost of goods sold increased by 54.3% and 49.9% respectively, causing gross profit to increase slightly faster than revenue.

Gross profit of our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills and General Purpose Gear Transmission Equipment increased by RMB16.3 million, or 21.0%, from RMB77.9 million for the year ended 31 December 2005 to RMB94.3 million for the year ended 31 December 2006, largely due to a 37.3% decrease in the cost of our other raw materials and a 29.9% decrease in our outsourced processing costs, which contributed to a 12.6% decrease in the cost of goods sold. Because the cost of goods sold decreased at a faster rate than the decrease in revenue generated from sales (causing gross profit to increase while revenue decreased), gross profit margin for our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills increased to 32.6% for the year ended 31 December 2006 from 25.9% for the year ended 31 December 2005.

Gross profit for our Wind Gear Transmission Equipment increased by RMB82.2 million, or 2,973.1%, from RMB2.8 million for the year ended 31 December 2005 to RMB85.0 million for the year ended 31 December 2006. Revenue generated from sales increased by 1,097.9% and gross profit margin increased to 26.7% for the year ended 31 December 2006 from 10.4% for the year ended 31 December 2005 as increase in sales volume led to better economies of scale.

Gross profit of our Marine Gear Transmission Equipment decreased by RMB0.04 million, or 13.2%, from RMB0.35 million for the year ended 31 December 2005 to RMB0.31 million for the year ended 31 December 2006 largely due to a 1,846.1% increase in outsourced processing costs. Despite a 341.3% increase in revenue generated from sales, gross profit margin of our Marine Gear Transmission Equipment decreased to 9.7% for the year ended 31 December 2006 from 49.3% for the year ended 31 December 2005, largely as a result of the 685.8% increase in cost of goods sold.

Gross profit of our other mechanical transmission equipment decreased by RMB19.2 million , or 30.7% from RMB62.5 million for the year ended 31 December 2005 to RMB43.3 million for the year ended 31 December 2006 because the cost of sales increased at a faster rate than the rate of increase in revenue. As a result, gross profit margin decreased to 19.5% for the year ended 31 December 2006 from 32.4% for the year ended 31 December 2005.

The changes in gross profit and gross profit margin in relation to our main product categories were in line with our overall business development strategy. Since 2004, part of our development strategy was focused on developing our capabilities in producing Wind Gear Transmission Equipment as our management considers that this industry presents development potential for us in view of the increasing popularity of wind power generation both in China and globally. During the year ended 31 December 2006, we changed our product mix in line with such strategy as well as the developments in the markets which changed the market demand of our products. We have increased our sales of Wind Gear Transmission Equipment substantially as demand of our customers increased. At the same time, as our Wind Gear Transmission Equipment has the highest average selling price amongst our other categories of main products, we devoted more resources to produce and sell Wind Gear Transmission Equipment which contributed to the overall increase in our gross profit.

Because of the wide application of our General Purpose Gear Transmission Equipment, its selling price is, in general, subject to less downward pressure. Accordingly, the average selling price was relatively stable from 2005 to 2006. Accordingly, we increased sales of our General Purpose Gear Transmission Equipment. This also contributed to the overall increase in our gross profit.

The overall increase in our gross profit was partially offset by the decrease in the gross profit for our Gear Transmission Equipment for Construction Materials. In line with the weakening demand of the market as a result of PRC Government policies to slow down growth in the cement industry, we strategically reduced the sales volume of this category of products as well as its proportion of our overall sales volume. This change in product mix has allowed us to place more emphasis on our development efforts in Wind Gear Transmission Equipment.

Because of the factors discussed above, our overall gross profit recorded a 24.1% increase in 2006 compared to 2005 while our overall gross profit margin remained relatively stable.

Other income

Other income for the year ended 31 December 2006 increased by RMB9.0 million, or 62.9%, as compared with the year ended 31 December 2005, to RMB23.3 million from RMB14.3 million. This increase principally reflected the RMB5.7 million increase, or 327.3%, in government subsidies we received as a result of our operations in certain industries, such as the wind power industry, as well as research and development for technological upgrades. The government subsidies were RMB7.5 million for the year ended 31 December 2006 and RMB1.8 million for the year ended 31 December 2005. The government subsidies represented incentive payments received primarily from the Nanjing Finance Bureau (南京市財政局) and the Nanjing Science and Technology Bureau (南京市科學技術局). The subsidies were unconditional, non-recurring and entitlement to such subsidies is subject to annual assessment by the government authorities. The increase in government subsidies primarily resulted from the assessment by the authorities that we were a fast growing and high-technology enterprise.

In addition, revenue from sales of scrap metal increased by RMB1.1 million, or 14.4%, from RMB8.0 million to RMB9.1 million, while our interest income increased by RMB1.0 million, or 31.0%, from RMB3.2 million to RMB4.2 million.

Distribution costs

Distribution costs increased by RMB11.5 million, or 26.0%, to RMB55.7 million for the year ended 31 December 2006, from RMB44.2 million for the year ended 31 December 2005, primarily as a result of a RMB3.7 million increase in salaries as the number of sales personnel increased to support the increase in our sales volume. Distribution costs also increased due to a RMB0.9 million increase in technical consulting fees, a RMB1.7 million increase in entertainment expenses and a RMB1.8 million increase in our freight and delivery expenses.

Administrative expenses

Administrative expenses for the year ended 31 December 2006, increased by RMB34.9 million, or 34.0%, to RMB137.5 million from RMB102.6 million for the year ended 31 December 2005. This increase was primarily due to increased salary and benefits for our non-factory employees, which increased by approximately RMB15.3 million for the year ended 31 December 2006, compared to 31 December 2005, as a result of the new employees hired by Nanjing High Speed to support our increase in production of Wind Gear Transmission Equipment. In addition, miscellaneous office expenses increased by RMB12.1 million and professional fees increased by RMB4.5 million for the year ended 31 December 2006 from the year ended 31 December 2005.

Operating profit

Based on the foregoing, our operating profit increased by RMB22.5 million, or 16.8%, to RMB156.3 million for the year ended 31 December 2006, from RMB133.8 million for the year ended 31 December 2005. Our operating profit margin decreased from 14.1% to 13.2% primarily due to the increase in our administrative expenses.

Finance costs

Our finance costs were RMB41.5 million for the year ended 31 December 2006, represented an increase of RMB20.3 million, or 95.8%, from RMB21.2 million for the year ended 31 December 2005. This increase was primarily due to an increase in our interest expense on bank borrowings as our bank borrowings increased.

Profit before taxation

Profit before taxation decreased by RMB18.9 million, or 16.8%, from RMB112.6 million to RMB93.7 million, during the year ended 31 December 2006, as compared with the year ended 31 December 2005. This decrease primarily reflected changes in the fair value of our Convertible Bonds from their issue date on 26 January 2006 to the conversion date on 22 December 2006. Profit margin before taxation decreased to 7.9% during the year ended 31 December 2006, as compared with 11.9% for the year ended 31 December 2005. Allowance for inventories, as a charge to profit before taxation, comprised of deductions in respect of provision for obsolete stock and adjustment by reference to the net realisable value of the inventories of finished goods. Allowance for inventories for the year ended 31 December 2006 increased by RMB2.9 million from RMB1.4 million to RMB4.3 million. This increase was due to the increase in the allowance made for work-in-progress inventories as a result of an adjustment made by reference to their net realisable value. Impairment loss on trade and other receivables, as a charge to profit before taxation, represented deduction for provision of doubt debts according to our provisioning policy. Impairment loss on trade and other receivables for the year ended 31 December 2006 decreased by RMB1.6 million from RMB6.6 million to RMB5.0 million. This was primarily due to the improvement in the collection of our trade receivables that were aged 1-2 years and 2-3 years as compared with the previous year. Impairment of goodwill, as a charge to profit before taxation, of RMB0.3 million for the year ended 31 December 2006 represented reduction of benefit expected to be derived from the goodwill which was originally recognised from the acquisition by our

Company of interest in its subsidiary, Nanjing High Speed & Accurate Gear Sales (Shenyang) Sales Co., Ltd, in 2004. As part of the re-arrangement of our Group's operations during 2006, we revised our cashflow forecasts for this subsidiary based on its financial performance. Accordingly, this led to the reduction of the expected benefit and hence the recognition of the impairment of goodwill.

Taxation

Taxation was RMB3.5 million for the year ended 31 December 2006, compared to RMB13.3 million for the year ended 31 December 2005. This decrease was primarily the result of two factors. First, 2006 was the first year in which our subsidiaries NGC and Ningjiang were entitled to certain tax benefits under the Income Tax Law because 2006 was the year in which they were reorganised and converted into foreign-invested enterprises. They were thus exempt from the enterprise income tax for the year ended 31 December 2006. Second, in connection with a circular issued by the Ministry of Finance and the State Administration of Taxation in the PRC ("SAT"), dated 8 December 1999, and a circular issued by SAT, dated 17 January 2000, Nanjing High Speed received a tax credit in the amount of RMB13.3 million as a result of certain domestically produced equipment it purchased. Please refer to Note 8 of our consolidated financial statements appearing in Appendix IB to this prospectus for details of the 8 December 1999 and 17 January 2000 circulars.

Our effective tax rate reduced from 11.8% for the year ended 31 December 2005 to 3.7% for the year ended 31 December 2006. This was primarily due to the entitlement of NGC, one of our principal operating subsidiaries, of tax "holidays" beginning in the calendar year of 2006, after it became a foreign invested enterprise. In addition, Nanjing High Speed also enjoyed preferential income tax rate as a result of being approved to be a "Technologically Advanced Enterprise" and being registered in a designated development zone in the PRC. Its purchase of domestic equipment during the period also entitled it to receive further tax benefits.

Profit for the period/year

Profit for the year ended 31 December 2006, decreased by RMB9.1 million, or 9.2%, from RMB99.3 million to RMB90.2 million as compared with the year ended 31 December 2005. Our net profit margin decreased from 10.5% for the year ended 31 December 2005, to 7.6% for the year ended 31 December 2006, primarily due to the loss on changes in fair value of Convertible Bonds and the increase in our administrative expenses and finance costs, which were partially offset by the decrease in our taxation.

YEAR ENDED 31 DECEMBER 2005 COMPARED TO THE PERIOD FROM 26 FEBRUARY 2004 TO 31 DECEMBER 2004

Prospective investors should bear in mind that as the following discussions were made for the 2004 Period and the year ended 31 December 2005, the performance of these two periods may not be directly comparable as the periods are of different lengths. Prospective investors are cautioned not to place undue reliance on the following discussion.

Revenue

Revenue for the year ended 31 December 2005 increased by RMB257.8 million, or 37.4%, as compared with revenue during the 2004 Period. The increase was primarily due to revenue generated from sales of our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills, which increased by RMB155.0 million as a result of a 111.0% increase in volume sold to 7,574.6 tons for the year ended 31 December 2005, from 3,590.5 tons for the 2004 Period, despite a 2.3% decrease in the average selling price. The increase in sales volume for our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills was driven by governmental policies in the PRC designed to stimulate the upgrading of factories, thus spurring an increased demand for mechanical transmission equipment for metallurgy purposes. Revenue for the year ended 31 December 2005 also increased because of a RMB37.4 million increase in revenue generated from sales of other mechanical transmission equipment, primarily consisting of mechanical transmission equipment for mixers, mechanical transmission equipment for rubber production and customised mechanical transmission equipment due to a 3.9% increase in its average selling price and a 19.3% increase in volume sold. Revenue generated from our Wind Gear Transmission Equipment increased to RMB26.5 million for the year ended 31 December 2005, from RMB0.7 million, an increase of RMB25.8 million, or 3,944.2%. This increase was due to a 378.6 tons increase in volume sold as our capacity to produce Wind Gear Transmission Equipment increased.

Cost of goods sold

Cost of goods sold for the year ended 31 December 2005 increased by 37.2% as compared with cost of goods sold during the 2004 Period. The primary reason for the increase in cost of goods sold was the RMB114.9 million increase in cost of goods sold incurred in connection with our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills, to RMB223.1 million for the year ended 31 December 2005, from RMB108.2 million for the 2004 Period. In addition, our cost of cast iron and forged steel increased by RMB94.3 million in 2005, including a RMB49.8 million increase in the cost of cast iron and forged steel for Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills. Cost of goods sold for our Wind Gear Transmission Equipment increased by RMB23.2 million, or 3,944.2%, from RMB0.6 million for the 2004 Period, to RMB23.7 million for the year ended 31 December 2005, as a result of the increase in volume sold. Also, cost of goods sold for other mechanical transmission equipment increased by RMB16.1 million to RMB130.4 million for the year ended 31 December 2005 from RMB114.3 million for the 2004 Period primarily due to the increase in sales of our mechanical transmission equipment for coupling machines, and customised mechanical transmission equipment and related spare parts.

Since 2004, we have gradually changed the raw materials we use to make the welded housing for our mechanical transmission equipment from steel plates to cast iron. As a result, the proportion of cost of other raw materials decreased from 35.6% to 26.8% from the 2004 Period to the year ended 31 December 2005. At the same time, the proportion of cost of cast iron and forged steel of the total cost of goods sold increased from 23.5% to 31.2% during the same period.

Gross profit and gross profit margin

Our gross profit for the year ended 31 December 2005 was RMB274.6 million, an increase of RMB75.4 million, or 37.9%, from RMB 199.2 million for the 2004 Period.

Gross profit of our High-speed Series Gear Transmission Equipment decreased from RMB14.5 million for the 2004 Period to RMB10.1 million for the year ended 31 December 2005, largely due to a 112.4% increase in cost of goods sold as a result of a significant increase in the cost of cast iron and forged steel used in producing our High-Speed Series Gear Transmission Equipment and an increase in the cost of outsourced processing as our sales volume increased more quickly than our production capabilities. As a result, gross profit margin for our High-Speed Series Gear Transmission Equipment decreased by 27.1%, from 63.9% for the 2004 Period, to 36.8% for the year ended 31 December 2005.

Gross profit of our Gear Transmission Equipment for Construction Materials increased by RMB6.3 million, or 7.5%, from RMB84.6 million for the 2004 Period to RMB90.9 million for the year ended 31 December 2005 as sales volume increased by 9.0%, despite a 1.2% decrease in average selling price. Gross profit margin of our Gear Transmission Equipment for Construction Materials remained steady at 29.6% as both revenue and cost of goods sold of our Gear Transmission Equipment for Construction Materials increased by 7.7%.

Gross profit of our General Purpose Gear Transmission Equipment increased by RMB9.1 million, or 43.5%, from RMB20.9 million for the 2004 Period to RMB29.9 million for the year ended 31 December 2005, largely due to a RMB7.2 million, or 55.2%, decrease in the outsourced processing costs because of our expansion of production capacity and purchase of new equipment resulting in a decrease of our outsourcing need. Revenue generated from sales increased by 15.6% as a result of a slight increase in volume sold and average selling price. Gross profit margin of our General Purpose Gear Transmission Equipment thus increased to 33.2% for the year ended 31 December 2005 from 26.7% for the 2004 Period.

Gross profit of our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills increased from RMB37.9 million for the 2004 Period to RMB77.9 million for the year ended 31 December 2005. Gross profit margin of our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills remained steady at 25.9% as revenue and cost of goods sold increased at similar rates of 106.1% and 106.3% respectively for the year ended 31 December 2005 from the 2004 Period.

Gross profit of our Wind Gear Transmission Equipment increased by RMB2.7 million, or 4,243.4%, from RMB0.06 million for the 2004 Period to RMB2.8 million largely due to a 3,923.3% increase in volume sold. Gross profit margin increased to 10.4% for the year ended 31 December 2005 from 9.7% for the 2004 Period, as the increase in revenue (3,944.2%) outpaced the increase in cost of goods sold (3,912.3%) due in part to a 1.0% increase in average selling price.

Gross profit of our Marine Gear Transmission Equipment was RMB0.35 million for the year ended 31 December 2005 and gross profit margin was 49.3%. We did not sell Marine Gear Transmission Equipment in the 2004 Period.

Gross profit from other mechanical transmission equipment increased by RMB21.2 million, or 51.3%, to RMB62.5 million for the year ended 31 December 2005, from RMB41.3 million for the 2004 Period.

The changes in gross profit and gross profit margin in relation to our main product categories were in line with our overall business development strategy. Since 2004, we have implemented our business strategy in introducing and developing our capabilities in producing Wind Gear Transmission Equipment as our management considers that this industry presents development potential for us in view of the increasing popularity of wind power generation both in China and globally. At the same time, we were planning to also develop new business opportunities in Marine Gear Transmission Equipment. Our introduction and development of these new categories of products required strong and stable support from our traditional categories of products which have historically been the main drivers of sales and profit, namely our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills and Gear Transmission Equipment for Construction Materials.

In order to provide support and a stable environment to implement our development strategy in Wind Gear Transmission Equipment and Marine Gear Transmission Equipment, we maintained our focus in historically strong areas, namely Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills and Gear Transmission Equipment for Construction Materials, to enable us to derive stable profits. We increased sales volume of our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills which contributed to the overall increase in our gross profit as a result of its stable average selling price and costs of goods sold as a percentage of its turnover. Whilst we also focused on our Gear Transmission Equipment for Construction Materials, in view of the PRC Government policies aimed at slowing down growth in the cement industry, we placed relatively less focus in this area by simply maintaining stable levels of sales and gross profit for this category of products.

The overall increase in our gross profit was partially offset by the decrease in gross profit for our High-speed Series Gear Transmission Equipment. The decrease in gross profit was primarily due to the downward pressure on price. As the demand for our High-speed Series Gear Transmission Equipment mainly comes from special and high-technology industries such as aerospace and scientific research and development, in which the number of available customers is relatively fewer than that in other more mainstream industries, our products are sensitive to price movements. Although there was a 22.1% decrease in the average selling price for our High-speed Series Gear Transmission Equipment during the year ended 31 December 2005, because of reduced raw material costs, the gross profit margin remained relatively high compared with other products. Accordingly, we maintained our efforts in this category of products with an aim to maintaining our market presence in the special and high-technology markets.

Because of the factors discussed above, our overall gross profit margin remained steady with a slight increase from 28.9% for the 2004 period to 29.0% for the year ended 31 December 2005.

Other income

Other income for the year ended 31 December 2005 increased by 47.4% as compared with the 2004 Period. This increase principally reflected increased revenue from sales of scrap metal as a result of the increased volume of scrap steel produced during the period and an increase in the amount of government subsidies we received as a result of our operations in certain industries, such as the wind power industry, as well as research and development for technological upgrades. The government subsidies were RMB1.8 million for the year ended 31 December 2005 and RMB0.4 million for the 2004 Period. The government subsidies represented incentive payments received primarily from the Nanjing Finance Bureau (南京市財政局) and the Nanjing Science and Technology Bureau (南京市科學技術局). They were unconditional, non-recurring and entitlement to these subsidies is subject to annual assessment by the government authorities. The increase in government subsidies primarily resulted from the assessment by the authorities that we were a fast growing and high-technology enterprise.

Distribution costs

Distribution costs increased for the year ended 31 December 2005 increased by 39.9% as compared with the 2004 Period. The increase principally reflected the higher volume of sales during the period.

Administrative expenses

Administrative expenses for the year ended 31 December 2005 increased by 20.6% as compared with the 2004 Period. This increase was primarily due to an increase in salaries and benefits for our non-factory employees by RMB21.9 million as a result of an expansion in our operations, partially offset by decreases in impairment of inventory and bad debt expenses and miscellaneous office expenses.

Operating profit

Our operating profit increased by RMB39.3 million, or 41.6%, to RMB133.8 million for the year ended 31 December 2005, from RMB94.5 million for the 2004 Period. Our operating profit margin increased from 13.7% to 14.1%.

Finance costs

Finance costs for the year ended 31 December 2005 increased by 57.0% as compared with the 2004 Period. This increase was primarily due to a RMB7.7 million increase in interest expense on bank borrowings as our bank borrowings increased.

Profit before taxation

Profit before taxation increased by 39.0% for the year ended 31 December 2005 as compared with the 2004 Period. This increase primarily reflected the growth of our business discussed above. Profit margin before taxation remained stable at 11.9% during the year ended 31 December 2005, as compared with 11.8% for the 2004 Period, as the increase in finance costs was largely offset by the fact that administrative expenses did not increase in proportion with the increase in overall sales revenue as we achieved better economies of scale. Profit before taxation for the year ended 31 December 2005 also reflected charges for allowance for inventories and impairment loss on trade and other receivables. Allowance for inventories, as a charge against profit before taxation, for the year ended 31 December 2005 decreased by RMB3.0 million from RMB4.4 million to RMB1.4 million. This decrease was due to the decrease in the inventories of work-in-progress and finished goods leading to a decrease in allowance made. The decrease in the inventories of work-in-progress and finished goods for the year ended 31 December 2005 was due to execution of sales orders and sales of large quantities of our products to our customers, which led to a drop in inventories of work-in-progress and finished goods. Impairment loss on trade and other receivables, as a charge against profit before taxation, for the year ended 31 December 2005 increased by RMB1.0 million from RMB5.6 million to RMB6.6 million. Impairment losses increased in 2005 because we recognised additional impairment losses as our outstanding trade receivables aged.

Taxation

Taxation was RMB13.3 million for the year ended 31 December 2005, as compared with RMB2.2 million for the 2004 Period. The substantial increase in taxation reflects our increased profit before taxation and deferred tax charges. Deferred tax charges increased for the year ended 31 December 2005 as compared with those in the 2004 Period as a result of changes to our deferred tax assets relating to doubtful debt and inventory allowances. In addition, since 2005, our development costs were attributed to our categories of products and qualified for capitalisation as intangible assets under the relevant accounting standard. We increased our intangible assets from nil as at 31 December 2004 to RMB17.2 million as at 31 December 2005. As a result of our capitalisation of development costs, we increased our deferred tax liabilities as the capitalised costs represented deferred tax charge to the income statement. The development costs were deductible for tax purposes in the year during which they were incurred while they were capitalised and subject to amortisation on our accounts.

Our effective tax rate increased from 2.8% for the 2004 Period to 11.8% for the year ended 31 December 2005. Whilst the enterprise income tax rates for members of our Group remained stable from the 2004 Period to the year ended 31 December 2005, the increase was primarily due to the increase in the portion of our research and development costs which were not deductible and which contributed to the increase in our taxation and hence our effective tax rate for the year ended 31 December 2005. We increased our research and development costs for the year ended 31 December 2005 as we placed emphasis on the research and development for our new products during the year.

Profit for the period/year

Profit for the year ended 31 December 2005 increased by 26.0% as compared with the 2004 Period. This result reflected the increased results of our business during the year as discussed above. Net profit margin decreased from 11.4% for the 2004 Period, to 10.5% for the year ended 31 December 2005, primarily due to the decrease in gross profit margin and the increase in finance costs and tax expenses, both of which were partially offset by the fact that our administrative expenses did not increase in proportion with the increase in our overall sales revenue.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Our principal sources of liquidity and capital resources have been, and are expected to be, cash from our operating activities and various forms of financing, including bank borrowings. In addition, we have obtained cash from the issuance of convertible bonds (which were converted to common shares on 22 December 2006). We expect to increase our liquidity and capital resources from the proceeds of the Global Offering.

As at 31 December 2006, we had banking facilities of RMB1,159 million, of which RMB262 million was unutilised. We have signed banking facilities agreements with our banks. Under these banking facilities, we may borrow up to the credit limit of the respective banking facility, although each withdrawal or renewal is subject to approval by the lending bank. Our bank borrowings are primarily charged at the interest rates set by the PBOC. Some of our banking facilities are guaranteed by intra-group cross guarantees by members of our Group as security. Our bank borrowings do not contain any material restrictive covenants.

In respect of the facilities maturing in the coming year, we have not sought to obtain specific comfort letters from the relevant banks to confirm that the bank loans will be rolled over upon maturity because the banks typically will not issue such comfort letters before the relevant bank loan or banking facility falls due. Our Directors confirm that we have not encountered problems in relation to the renewal of bank loans or facilities in the past. Our Directors also do not believe that we will have such problems in the future in light of our good credit standing and relationships with our principal lending banks. Our Directors also believe that, based on our good credit standing and relationships with our principal banks, we will not face any difficulty in obtaining further bank financing or increase the amount of our banking facilities, if necessary, in the foreseeable future. We intend to increase the proportion of long term bank loans in the future in order to improve our capital structure.

Net Current Assets/Liabilities

We had net current liabilities in the amount of RMB179.4 million, RMB296.3 million and RMB135.1 million, respectively, as at 31 December 2004, 2005 and 2006. Our net current liabilities position during the Track Record Period was primarily due to the increase in trade and other payables and bank borrowings. Our trade and other payables were RMB503.9 million, RMB562.4 million and RMB777.0 million as at 31 December 2004, 2005 and 2006 respectively. Our short term bank borrowings were RMB329.0 million, RMB460.8 million and RMB612.6 million as at 31 December 2004, 2005 and 2006 respectively. Considering the lower interest rate for short term bank borrowings, we have mainly used short term bank borrowings to fund our capital expenditure during the Track Record Period. The effect of the increases was partially offset by the increase in trade and other receivables and inventories during the Track Record Period. Our trade and other receivables were RMB177.4 million, RMB416.6 million and RMB530.2 million and our inventories were RMB287.1 million, RMB229.3 million and RMB347.5 million as at 31 December 2004, 2005 and 2006 respectively.

As discussed above, we have mainly used short term bank borrowings to fund our capital expenditure in the past due to the lower interest rate as compared with interest rate for long term bank borrowings. This has resulted in our net current liability position during the Track Record Period. In order to improve our liquidity, we have, since 2006, gradually shifted our reliance away from short term bank borrowings to having a higher proportion of funding sourced from long term bank borrowings. Set forth below is a table of comparison between short term and long term RMB lending interest rates in the PRC in recent years:

Benchmark PBOC RMB Lending Interest Rates in Recent Years

Effective Date	6 Months	1 Year	1-3 Years	3-5 Years	Over 5 years
21-Feb-2002	5.04%	5.31%	5.49%	5.58%	5.76%
29-Oct-2004	5.22%	5.58%	5.76%	5.85%	6.12%
28-Apr-2006	5.40%	5.85%	6.03%	6.12%	6.39%
19-Aug-2006	5.58%	6.12%	6.30%	6.48%	6.84%
18-Mar-2007	5.67%	6.39%	6.57%	6.75%	7.11%
19-May-2007	5.85%	6.57%	6.75%	6.93%	7.20%

Source: The PBOC

As at 30 April 2007, we had net current liabilities of RMB126.5 million. As at that date, we have current assets of RMB1,223.7 million consisting primarily of trade and other receivables and inventories and current liabilities of RMB1,350.2 million consisting primarily of trade and other payables and bank borrowings. Despite our net current liability position, because of our ability to generate cash from operating activities, our good credit standing and relationships with our principal lending banks, and considering the amount of net proceeds we expect to raise from the Global Offering, our Directors believe that we will continue to have sufficient cash resources for our operating and financing needs for at least the next 12 months from the date of this prospectus.

Cash Flow

The following table sets forth certain information about our audited consolidated cash flows during the three years ended 31 December 2006.

	NGC	The Group		
	For the period from 1 January 2004 to 25 February 2004	For the 2004 Period	For the year ended 31 December 2005	For the year ended 31 December 2006
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
Net cash flows (used in) from operating activities	(2.2)	48.1	31.7	158.1
Net cash flows (used in) investing activities	(46.7)	(162.6)	(162.0)	(487.8)
Net cash flows from financing activities	82.3	92.5	130.7	462.3
Net increase (decrease) in cash and bank balances	33.4	(22.0)	0.4	132.6
Cash and bank balances at beginning of the year	51.8	85.1	63.1	63.5
Cash and bank balances at end of the year	85.2	63.1	63.5	196.1

Period from 26 February 2004 to 31 December 2004

Net cash flows from operating activities during the 2004 Period were RMB48.1 million and principally comprised of operating cash flows of RMB128.8 million before movements in working capital, partially offset by, among other things, a RMB73.9 million increase in inventories as a result of an increased volume of products manufactured during the period and a RMB18.3 million decrease in trade and other payables. Cash used in investing activities during the period was RMB162.6 million. This amount primarily comprised of investment in property, plant and equipment of RMB82.4 million associated with the construction of new production facilities in connection with our Wind Gear Transmission Equipment. In addition, cash used in investing activities included advances to our related parties in the amount of RMB21.1 million. Net cash from financing activities of RMB92.5 million reflected a RMB88.4 million net increase in bank borrowings and capital contributions from shareholders of RMB33.6 million, partially offset by interest and dividends paid. The net increase in bank borrowings was used primarily to finance our working capital needs. A significant proportion of our bank borrowings during the year were incurred as short-term loans due within one year. These loans are typically refinanced each year.

Year ended 31 December 2005

Net cash flows from operating activities during the year ended 31 December 2005 were RMB31.7 million, a decrease of 34.1%, as compared with the 2004 Period. Net cash flows from operating activities principally comprised of operating cash flows of RMB196.7 million before movements in working capital. Movements in working capital included a RMB56.4 million decrease in inventories and a RMB46.3 million increase in trade and other payables, partially offset by a RMB261.3 million increase in trade and other receivables. The increase in trade receivables as well as the RMB56.4 million decrease in inventories for the year ended 31 December 2005 reflected payment delays from customers to whom we had supplied large orders. We believe the delays occurred because these customers did not receive their other supplies on time, causing them to delay the installation of their production lines and thus delay their payments to us. Cash used in investing activities during the year ended 31 December 2005 was RMB162.0 million, which has remained stable as compared with the 2004 Period. This amount primarily comprised of investment in property, plant and equipment of RMB94.4 million in connection with the expansion of Nanjing High Speed's production capacity as well as research and development costs of RMB17.0 million which have been partially capitalised. The latter reflected development costs associated with the design and production of new mechanical transmission equipment that we expect to recover through future commercial activity. The resulting intangible asset is capitalised and amortised over a period of five years. We also spent RMB35.5 million to acquire additional equity interests in our subsidiaries and increased our pledged bank deposits by RMB47.0 million. Net cash from financing activities was RMB130.7 million. This amount principally reflected a 40.1% increase in short term bank borrowings to RMB460.8 million as at 31 December 2005, and an 80.0% increase in long term bank borrowings to RMB90.0 million as at 31 December 2005. Net cash from financing activities of RMB130.7 million reflected a RMB171.8 million net increase in bank borrowings and capital contributions from shareholders of RMB35.4 million, offset by interest and dividend paid.

Year ended 31 December 2006

Net cash flows from operating activities during the year ended 31 December 2006 were RMB158.1 million, an increase of RMB126.4 million, or 398.7%, as compared with the year ended 31 December 2005. Net cash flows from operating activities principally comprised of operating cash flows of RMB223.3 million before movements in working capital, including an increase in trade and other payables of RMB193.5 million, partially offset by a RMB129.6 million increase in trade and other receivables and a RMB122.4 million increase in inventories. The increase in trade and other payables for the year ended 31 December 2006 was primarily due to our increased purchase of raw materials as our sales volume increased as well as our increased use of notes to pay our suppliers, which typically allow us to defer payments to our suppliers on an interest-free basis for up to 180 days. Our trade and other receivables increased for the year ended 31 December 2006 primarily due to the increased sales of our products, in particular, our Wind Gear Transmission Equipment. The increase in inventories for the year ended 31 December 2006 was primarily due to the increase in our sales volume. Cash used in investing activities during the period was RMB487.8 million, an increase of RMB325.8 million, or 201.1%, as compared with the year ended 31 December 2005. This amount primarily comprised of investment in property, plant and equipment of RMB396.4 million in connection with our plan to increase the production of our Wind Gear Transmission Equipment, Marine Gear Transmission Equipment, mechanical transmission equipment for the light-rail and high-speed trains industry and other mechanical transmission equipment. Net cash used in investing activities for the year ended 31 December 2006 also consisted of RMB32.0 million used to increase our equity interests in certain subsidiaries. Net cash from financing activities was RMB462.3 million, an increase of RMB331.6 million, or 253.7%, compared to the year ended 31 December 2005. This amount principally reflected a 32.9%

increase in short term bank borrowings to RMB612.6 million as at 31 December 2006, and a 216.2% increase in long term bank borrowings to RMB284.6 million as at 31 December 2006. Net cash from financing activities of RMB462.3 million also comprised of RMB219.4 million from the issuance of convertible bonds and capital contributions from minority shareholders of RMB134.1 million.

CAPITAL EXPENDITURE

Historical Capital Expenditure

Our capital expenditure was RMB82.4 million, RMB110.4 million and RMB415.5 million for the 2004 Period and the two years ended 31 December 2006, respectively.

	NGC	The Group		
	For the period from 1 January 2004 to 25 February 2004	For the period from 26 February 2004 to 31 December 2004	For the year ended 31 December 2005	For the year ended 31 December 2006
	(RMB in millions)	(RMB in millions)	(RMB in millions)	(RMB in millions)
Capital Expenditure[1]				
Construction	73.7	77.7	105.8	411.4
Purchase of property and equipment	1.0	2.8	3.7	1.8
Others	0.4	1.9	0.9	2.3
Total	75.1	82.4	110.4	415.5

Note:

(1) All our historical capital expenditures were funded partially by cash from operations and partially by bank borrowings.

Capital expenditure for the 2004 Period was RMB82.4 million, which primarily comprised of RMB46.6 million spent on construction and purchases of property and equipment in connection with the production of our Wind Gear Transmission Equipment and RMB22.8 million on purchases of property and equipment for our Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills. Our capital expenditure for the year ended 31 December 2005 was RMB110.4 million, which primarily comprised of RMB105.3 million spent on construction and purchases of property and equipment for manufacturing our Wind Gear Transmission Equipment. Capital expenditure for the year ended 31 December 2006 was RMB415.5 million, which primarily comprised of RMB273.3 million spent on construction and purchases of property and equipment for our Wind Gear Transmission equipment, RMB71.0 million on construction and purchases of property and equipment for our Marine Gear Transmission Equipment and RMB68.8 million on the construction and purchases of property and equipment for our General Purpose Gear Transmission Equipment. Capital expenditure increased significantly to RMB415.5 million for the year ended 31 December 2006, comprising construction in progress of RMB310.9 million. This increase was primarily due to the construction of new production facilities by Nanjing High Speed and Ningjiang to increase production of our Wind Gear Transmission Equipment and General Purpose Gear Transmission Equipment.

Planned Capital Expenditure

Our planned capital expenditure for the year ending 31 December 2007, totalling RMB582.6 million, is as follows:

- RMB248.3 million is expected to be used to increase our capacity to manufacture our Wind Gear Transmission Equipment by expanding our production facilities through the construction of additional facilities and the purchase of additional equipment.

- RMB150.8 million is expected to be used to increase our capacity to manufacture our Marine Gear Transmission Equipment and other marine vessel related products by expanding our production facilities through the construction of additional facilities and the purchase of additional equipment.

- RMB50.0 million is expected to be used to improve our ability to manufacture mechanical transmission equipment for the light rail and high-speed rail industry.

- RMB50.0 million is expected to be used to invest in production facilities (through a joint venture or otherwise) to manufacture raw materials for critical components for our products and secure supply for our operations.

- RMB83.5 million is expected to be used to do a technical upgrade of our existing production lines to achieve a higher operating efficiency.

We intend to fund these projects from proceeds from the Global Offering, our cash from operating activities, undistributed profits and existing or new bank facilities.

No assurance can be given that we will undertake these projects, or that if completed, they will be completed in the expected timeframe or within the estimated budget or that they will achieve capacities in the targeted amounts. See the section headed "Risk Factors — Risks related to our business — The construction and installation of our new production facilities may not be completed in the time frame or at the cost levels originally anticipated and, as a result, we may not be able to implement our future plans for expansion" of this prospectus.

CONTRACTUAL OBLIGATIONS AND CONTINGENT LIABILITIES

As at 31 December 2006, we had total contractual obligations in the amount of RMB303.0 million.

The following table sets forth our contractual obligations for the periods indicated.

	As at 31 December		
	2004	2005	2006
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)
Capital expenditure commitments			
Contracted but not provided for	22,846	61,347	256,587
Authorised but not contracted for	—	—	—
Sub-total	22,846	61,347	256,587
Operating lease commitments			
Payable within one year	45	1,031	1,031
Payable after one year but within five years	180	4,125	4,125
Payable after five years	1,895	42,279	41,248
Sub-total	2,120	47,435	46,404
Total	24,966	108,782	302,991

As at 31 December 2006 we had total capital commitments in respect of the purchase of fixed assets in the amount of RMB256.6 million.

We did not have any significant contingent liabilities as at 31 December 2004 and as at 31 December 2006. As at 31 December 2005, we had contingent liabilities in the amount of RMB22.3 million in connection with a guarantee we provided for a bank loan taken out by an independent third party which is a private company engaged in the construction business. This company was the contractor for the construction of one of our production factories. To the knowledge of our Directors, this company was in need of bank financing as it was experiencing short term cash flow problems. In order to ensure that this company would be able to complete the construction of our production factory on schedule, we provided a guarantee in favour of the lending bank in respect of the bank loan granted to this company. Commercial banks in the PRC often require bank loans to be secured by guarantors as a precondition for obtaining bank loans on terms more favourable to the borrower. In addition, bank loans may be unavailable unless the potential borrower is able to secure a guarantor. As at June 2006, this company fully repaid the bank loan and the guarantee provided by us has been released. No payment obligation on our part was triggered under the guarantee provided by us during the term of the loan. Since 30 June 2006, we have not entered into and will not enter into any arrangements whereby we guarantee loans taken out by third parties. We will only guarantee loans taken out by our subsidiaries.

Disclaimer

Save as disclosed in this prospectus, as at the Latest Practicable Date, our Company did not, have any outstanding mortgages, charges, debentures, debt securities or other loan capital or bank overdrafts or other similar indebtedness or finance lease commitments, guarantees or other material contingent liabilities.

CERTAIN BALANCE SHEET ITEMS

Trade and other receivables

Our total trade and other receivables as at 31 December 2004, 2005 and 2006, amounted to RMB177.4 million, RMB416.6 million and RMB530.2 million respectively. Our total trade and other receivables increased over the Track Record Period largely due to our increased sales. Our trade and other receivables comprise of trade receivables, advances to suppliers and other receivables.

Trade receivables

Our total trade receivables as at 31 December 2004, 2005 and 2006, amounted to RMB144.6 million, RMB366.5 million and RMB479.2 million, respectively and comprised of notes receivables and account receivables less impairment for doubtful debts.

Our notes receivables as at 31 December 2004, 2005 and 2006 were RMB10.5 million, RMB171.9 million and RMB204.2 million, respectively. The increase in our notes receivables reflected the increasing use by our customers of notes rather than other payment methods. We are able to exchange these notes, which typically have maturities of 180 days, for cash before their maturity dates, although we do so at a discount to their face value.

Our account receivables were RMB149.2 million, RMB217.9 million and RMB303.1 million, respectively, as at 31 December 2004, 2005 and 2006. Our account receivables increased RMB68.7 million, or 46.0%, as at 31 December 2005, compared to that as at 31 December 2004, primarily due to payment delays from certain customers to whom we had supplied large orders. We believe the delays occurred because these customers did not receive their other supplies on time, causing them to delay the installation of their production lines and thus delay their payments to us. Account receivables increased as at 31 December 2006 by RMB85.2 million, or 39.1%, compared to that as at 31 December 2005, primarily due to the increase in the sales of our products, in particular, our Wind Gear Transmission Equipment.

Our average credit period is 90 to 180 days and can vary by product. The credit periods for our Wind Gear Transmission Equipment and Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills are longer than the credit period for our other products because they have a longer installation period but will typically be no more than 180 days. Allowance against trade receivables to the extent amounts are considered to be uncollectible or unlikely to be collectible within a reasonable period of time varies depending on the credit terms granted to the relevant customers, the creditworthiness of the relevant customers and the past payment histories of the relevant customers. Trade receivables aged over three years are generally deemed to be uncollectible or unlikely to be collectible. For the three years ended 31 December 2006, our accumulated impairment for doubtful debts amounted to RMB15.2 million, RMB23.2 million and RMB28.1 million, representing 8.6%, 5.6% and 5.3% of our trade and other receivables, respectively.

Advances to suppliers

Our trade and other receivables also comprise of advances to suppliers. Our advances to suppliers as at 31 December 2004, 2005 and 2006 amounted to RMB20.5 million, RMB22.7 million and RMB37.9 million respectively. Advances to suppliers comprise of deposits made to our suppliers in respect of orders for raw materials placed by us. The increases in our advances to suppliers during the Track Record Period primarily resulted from the increases in our demand for raw materials due to increases in our sales. In particular, a substantial part of our advances to suppliers as at 31 December 2006 was made in anticipation of our increasing demand for raw materials resulting from the anticipated increase in our production for the current year ending 31 December 2007.

Other receivables

Our other receivables as at 31 December 2004, 2005 and 2006, amounted to RMB12.4 million, RMB27.3 million and RMB13.1 million, respectively. The components of our other receivables during the Track Record Period were as follows:

	As at 31 December		
	2004	**2005**	**2006**
	(RMB in thousands)	**(RMB in thousands)**	**(RMB in thousands)**
Tender deposit *(note)*	4,641	3,710	3,038
Advances to staff	2,723	1,975	1,762
Advances to third parties	5,600	18,380	1,248
Prepayments	1,113	1,121	1,975
Professional fees	—	—	3,977
Others	1,182	3,592	2,682
Less: Impairment for doubtful debts	(2,894)	(1,450)	(1,570)
Total	12,365	27,328	13,112

Note: *Tender deposit represents cash we deposit with our customers as part of the tender process. The deposit will typically be returned to us within one month after the completion of the tender process.*

Our other receivables increased by RMB15.0 million or 121.0%, from RMB12.4 million as at 31 December 2004 to RMB27.3 million as at 31 December 2005, primarily due to the increase in our advances to third parties. Our other receivables decreased by RMB14.2 million or 52.0%, from RMB27.3 million as at 31 December 2005 to RMB13.1 million as at 31 December 2006, primarily due to the decrease in our advances to third parties. Our advances to third parties mainly comprised of our direct advances made to suppliers or contractors who were engaged in the construction of our factories. In order to maintain good business relationships with these parties and with a view to ensuring the timely delivery of products from our suppliers or timely completion of construction of our factories, we had provided advances to them when they experienced cashflow problems. These advances were interest free and no security was provided. Our advances to third parties increased from RMB5.6 million to RMB18.4 million from 2004 to 2005 and then dropped to RMB1.2 million in 2006. We made impairment for doubtful debts mainly for those advances to third parties which have remained outstanding for a long time. Most of our advances to these third parties had been repaid to us by the end of 2006 and 84% of the advances outstanding as at 31 December 2006 was repaid to us by the end of May 2007. We expect to recover the remaining balance by the end of November 2007. Since September 2006, we have not made any new advances to third parties and we will not make such direct advances in the future. The PRC Legal Advisors have advised that enterprises cannot make loans to one another unless by way of entrusted loan or fiduciary loan arrangements through a financial institution as intermediary. Accordingly, our direct advances made to third parties were in violation of the requirements under General Principles of Loans of the People's Bank of China. As most of the advances have been repaid, the PRC Legal Advisers have confirmed that no penalty has been imposed by relevant PRC government authorities in respect of our advances made to third parties. Based on the PRC Legal Advisers' past experiences in similar situations and our confirmation that our Group had not made any new advances to third parties since September 2006 and will not make such advances in the future, the PRC Legal Advisers are also of the view that we will not suffer such penalties retrospectively in the future.

The following table sets forth an aging analysis of our total trade receivables:

	As at 31 December		
	2004	2005	2006
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)
Total trade receivables			
0 - 30 days	41,771	96,234	208,837
31 - 60 days	14,063	60,717	61,308
61 - 90 days	12,043	35,927	48,313
91 - 120 days	20,409	55,627	49,877
121 - 180 days	7,390	60,439	60,647
181 - 365 days	29,636	30,854	35,121
1 - 2 years	17,628	17,239	14,315
2 - 3 years	1,619	9,505	791
	144,559	366,542	479,209

Our trade receivables turnover days increased during the year ended 31 December 2005 primarily due to payment delays from certain customers to whom we had supplied large orders. Pursuant to the terms of our contract with these customers, we were only entitled to receive the remaining balance of the purchase price upon installation and testing of the products supplied to them. We believe the delays occurred because these customers did not receive their other supplies on time, causing them to delay installation of their production lines and thus delay their payments to us. The delayed payments were subsequently settled by these customers. Our turnover days increased for the year ended 31 December 2006 primarily due to the substantial increase in sales of our Wind Gear Transmission Equipment by 1,097.9% from RMB26.5 million in 2005 to RMB317.7 million in 2006. Our Wind Gear Transmission Equipment generally have alonger credit period because they have a longer installation period as compared with our other products.

	For the 2004 Period[2]	For the year ended 31 December 2005	For the year ended 31 December 2006
Debtors' turnover days[1]	56.9	98.5	130.3

Notes:

(1) Debtors' turnover days for 2005 and 2006 is calculated in the following manner: total trade receivables at the beginning of a given year plus total trade receivables at the end of a given year, divided by two, then divided by revenue and then multiplied by 365.

(2) Debtors' turnover days for the 2004 Period is calculated in the following manner: total trade receivables at 26 February 2004 plus total trade receivables at 31 December 2004, divided by two, then divided by revenue and then multiplied by 310.

Our trade receivables, as a component of our trade and notes receivables, partly comprised of retention monies retained by our customers to secure our performance of obligations during the warranty period for our products. The following table sets forth an aging analysis of our retention monies:

	As at 31 December		
	2004	2005	2006
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)
Retention monies			
Under 1 year	25,600	26,800	36,600
1 year - 2 years	—	6,200	1,500
Total	25,600	33,000	38,100

The total amounts of retention monies during the Track Record Period were RMB25.6 million, RMB33.0 million and RMB38.1 million, respectively. Provisions for retention monies of RMB11.4 million, RMB22.0 million and RMB14.3 million were made for the 2004 Period and the two years ended 31 December 2005 and 2006 respectively. Provisions were made, in accordance with our provisioning policy, when the retention monies have not been recovered after the expiry of the warranty period. The major reason for the non-payment of retention monies was that in certain cases it took us time to collect the retention monies upon expiry of the warranty period and was not because of our customers' dissatisfaction with our products. Occasionally, the non-payment of retention monies was due to our customers' dissatisfaction with our products. The balance of the retention monies represent the monies retained by customers for which the relevant warranty period has not expired. Notwithstanding the provisions, we always attempt to collect the overdue retention monies from our customers. We review the credit record of our customers from time to time and usually grant a warranty period of up to 18 months for our customers with good credit record. If our customers do not pay the overdue retention monies to us, we will not supply further products to such customers and will request for payment of the overdue retention monies before we consider further supplying any products to them. The increase in provisions from 2004 to 2005 primarily resulted from the increase in our sales in 2004 which increased the amount of retention monies kept by our customers in 2005. We recognised the increasing level of the provision and have increased our efforts to recover the retention monies from our customers. This has improved the level of our recovery leading to a smaller amount of provisions being made in 2006.

Trade and other payables

Our total trade and other payables as at 31 December 2004, 2005 and 2006, amounted to RMB503.9 million, RMB562.4 million and RMB777.0 million, respectively. We use trade payables primarily in connection with our purchase of raw materials. Total trade and other payables increased by RMB58.5 million, or 11.6%, as at 31 December 2005, compared to as at 31 December 2004, primarily due to a RMB122.9 million increase, or 50.9%, in our total trade payables, which consist of our accounts payables and notes payable. This increase in our total trade payables was primarily due to an increase in our notes payable to RMB207.7 million as at 31 December 2005, from RMB70.6 million as at 31 December 2004, partially offset by a RMB14.1 million decrease in our accounts payables. Our notes payable as at 31 December 2005 increased because of our increased purchases of raw materials as our sales volume increased and because of our increased use of notes payables to purchase raw materials. These notes payables do not bear any interest. The increase in our total trade and other payables as at 31 December 2005, compared to as at 31 December 2004, was partially offset by a RMB84.1 million decrease in advances from our customers. Advances from customers represented deposits paid by our customers in respect of contracts entered into with us for our supply of products. The decrease in advances occurred because we had less work-in-progress inventory (and finished goods inventory) as at 31 December 2005, compared to as at 31 December 2004, due to our delivery of large orders to certain customers by 31 December 2005. Typically, our customers pay us a 20%-30% deposit upon the signing of a purchase order, another 30% when the products purchased are being manufactured and the balance (subject to retention monies retained) upon delivery to customers, or upon installation and testing of the products by the customers. Because we delivered large orders to these customers by 31 December 2005, we had less work-in-progress inventory and thus less advances from our customers as at 31 December 2005, compared to as at 31 December 2004.

Total trade and other payables increased 38.2%, or RMB214.6 million, as at 31 December 2006, compared to as at 31 December 2005, primarily due to a RMB120.8 million increase, or 33.1%, in our total trade payables because of our increased purchases of raw materials as our sales volume increased and because of our increased use of notes amounting to RMB296.8 million as at 31 December 2006, from RMB207.7 million as at 31 December 2005, which we are able to obtain without having to pay interest, as such allows us to use our cash for other working capital purposes. Total trade and other payables also increased as at 31 December 2006, compared to as at 31 December 2005, due to a RMB85.9 million increase, or 68.9%, in advances from customers because a number of large orders were in progress by 31 December 2006, compared to 31 December 2005. We thus had more work in progress inventory as at 31 December 2006, compared to as at 31 December 2005, and thus more advances from customers.

Our trade and other payables also comprise of accrued expenses and other payables. Our accrued expenses as at 31 December 2004, 2005 and 2006 amounted to RMB5.2 million, RMB6.9 million and RMB4.6 million respectively. Accrued expenses primarily comprise of the travelling expenses of our staff in relation to production, audit fees, professional fees and interest expenses. The increase in accrued expenses as at 31 December 2004 compared to as at 31 December 2005 was primarily due to the increase in professional fees relating to the issue of the Convertible Bonds. The decrease in the accrued expenses as at 31 December 2005 compared to as at 31 December 2006 was primarily due to more accrued travelling expenses being converted into actual liabilities for which payments were made.

During the Track Record Period, the components of our other payables were as follows:

	As at 31 December		
	2004	2005	2006
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)
Welfare payables	6,005	7,747	10,137
Transportation charges	1,146	150	732
Deposit for scrap metal	2,088	2,328	2,067
Accrued warranty payments	1,000	1,849	4,549
Consultation and installation charges	3,400	3,398	1,812
Value-added tax	4,192	8,086	—
Others	2,973	3,960	4,171
	20,804	27,518	23,468

The increase in our other payables as at 31 December 2004 compared to as at 31 December 2005 was primarily due to an increase in the payables for value added tax. The decrease in our other payables as at 31 December 2005 compared to as at 31 December 2006 was primarily due to the decrease in the payables for value added tax.

Our average credit period is 100 to 180 days. The following table sets forth an aging analysis of our total trade payables:

	As at 31 December		
	2004	2005	2006
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)
Total trade payables			
0 - 30 days	91,166	78,085	165,429
31 - 60 days	31,364	42,175	88,207
61 - 180 days	86,664	225,895	215,504
181 - 365 days	20,958	10,994	8,376
1 year - 2 years	6,430	4,881	4,389
2 years - 3 years	2,866	1,453	1,381
Over 3 years	2,226	1,122	2,161
Total	241,674	364,605	485,447

Our creditors typically extend to us a credit period of 100 to 180 days for the purchase of raw materials. Our trade payables turnover days increased during the Track Record Period primarily due to our increased use of notes payables at the time of purchase, which as a method of payment, extend the settlement period of trade payables by the maturity period of the notes payables. Our use of note payables increased from RMB70.6 million as at 31 December 2004 to RMB207.7 million as at 31 December 2005, and to RMB296.8 million as at 31 December 2006. The use of notes payables has substantially contributed to the increasing trend of our trade payables in the aging category of 61-180 days as our notes payables typically have a maturity of six months. As all of our notes payables have a maturity of up to 180 days and the amounts payable under the notes will be automatically deducted from our deposits with the issuing banks upon maturity, the aging of our notes payables will normally not extend over 180 days. Our increased use of notes payables resulted from the increasing popularity of usage of note payables for the sale and purchase of goods in the PRC. In addition, if timely payment of the amount covered by the note was made upon maturity, no interest would be payable to bank issuers for using note payables as a form of payment. In the past, we have always repaid the note amount on time and hence no interest has been incurred by us. Accordingly, our use of notes payables enables us to free up cash resources for other working capital purposes at no cost to us.

	For the 2004 Period	For the year ended 31 December 2005	For the year ended 31 December 2006
Creditors' turnover days[(1)]	126.4	164.6	183.9

Notes:

(1) Creditors' turnover days for 2005 and 2006 is calculated in the following manner: total trade payables at the beginning of a given year plus total trade payables at the end of a given year, divided by two, then divided by cost of goods sold and then multiplied by 365.

(2) Creditors' turnover days for the 2004 Period is calculated in the following manner: total trade payables at 26 February 2004 plus total trade payables at 31 December 2004, divided by two, then divided by cost of goods sold and then multiplied by 310.

Inventories

Our inventories as at 31 December 2004, 2005 and 2006, were RMB287.1 million, RMB229.3 million and RMB347.5 million, respectively. The increase in inventories during the Track Record Period was primarily due to the increase in our sales volume. Work in progress inventory decreased from RMB182.0 million as at 31 December 2004, to RMB125.0 million as at 31 December 2005, and finished goods inventory decreased from RMB75.3 million as at 31 December 2004, to RMB70.5 million as at 31 December 2005, due to sales of large quantities of our products to certain customers.

The following table sets forth a breakdown of our inventories:

	As at 31 December		
	2004	2005	2006
	(RMB in thousands)	(RMB in thousands)	(RMB in thousands)
Inventories			
Raw materials	29,890	33,873	54,862
Work in progress	181,978	124,969	185,049
Finished goods	75,281	70,471	107,598
Total	287,149	229,313	347,509

During the Track Record Period, we typically maintained an inventory level of four to six months. The steady decrease in our inventory turnover days was primarily due to the increased sales of our Wind Gear Transmission Equipment, which have a lower production cycle than our other products. Our inventory days decreased during the Track Record Period also because of our successful implementation of the "just-in-time" production method.

	For the 2004 Period	**For the year ended 31 December 2005**	**For the year ended 31 December 2006**
Inventory turnover days[(1)]	158.0	140.2	124.8

Notes:

(1) Inventory turnover days for 2005 and 2006 is calculated in the following manner: total inventory at the beginning of a given year plus total inventory at the end of a given year, divided by two, then divided by cost of goods sold and then multiplied by 365.

(2) Inventory turnover days for the 2004 Period is calculated in the following manner: total inventory at 26 February 2004 plus total inventory at 31 December 2004, divided by two, then divided by cost of goods sold and then multiplied by 310.

Contractual rights on prepaid lease payments

We had contractual rights on a prepaid lease payment of RMB1.0 million as at 31 December 2004. This represented the excess of cash consideration paid by us for the acquisition of an additional interest in Nanjing Heavy Gear Manufacturing Co., Ltd. on 24 August 2004. The excess amount of RMB1.0 million representing the amount of the consideration over the share of net asset value of Nanjing Heavy Gear Manufacturing Co., Ltd. was the result of the expected benefits under a land purchase agreement that it had entered into. Accordingly the excess amount was recognised as fair value adjustment on the contractual rights.

Deposit paid for acquisition of prepaid lease payments

We had deposit paid for acquisition of prepaid lease payments of RMB6.1 million and RMB22.1 million as at 31 December 2005 and 2006 respectively. This represented deposits paid by Nanjing High Speed for the acquisition of certain land use rights in respect of Property 8 in Appendix IV - Valuation Report to this prospectus. As Nanjing Heavy Gear Manufacturing Co., Ltd. did not have substantial operations, Nanjing High Speed and Ningjiang took over the benefits of the contractual rights and entered into new agreements with the vendor. Accordingly, Nanjing High Speed paid the deposits in 2005 and 2006 under the new agreements and the balance of "contract rights on prepaid lease payments" in 2004 was reclassified as "deposit paid for acquisition of prepaid lease payments" in 2005. The PRC Legal Advisers have confirmed that the entering into new agreements in respect of the purchase of land and the payment of the deposits paid by Nanjing High Speed were in compliance with applicable PRC laws and regulations. As Nanjing High Speed has not obtained legal title in respect of the land use rights by 31 December 2006 because the relevant land was under construction, the deposits paid in 2005 and 2006 have remained deposits paid for acquisition of prepaid lease payments and have not been transferred to prepaid lease payments. The deposit will be transferred to prepaid lease payment once the outstanding legal title to the land has been obtained. Out of the deposit paid for acquisition of prepaid lease payment of RMB22.1 million as at 31 December 2006, RMB7.8 million has been transferred to prepaid lease payment in April 2007. We expect to obtain the outstanding legal title by the end of 2007 and to transfer the remaining deposit paid for acquisition of prepaid lease payment of RMB14.3 million to prepaid lease payment once the outstanding legal title is obtained.

Available-for-sale investments

Our available-for-sale investments were RMB1.6 million, RMB1.6 million and RMB1.4 million as at 31 December 2004, 2005 and 2006 respectively. They represented investments in unlisted equity securities of Bank of Communications, Nanjing Commercial Bank (formerly known as Nanjing Qinhuai Credit Union (南京秦淮信用社)) and Nanjing Daijiang Machinery & Electronics Tendering Co., Ltd which were acquired by us in February 1988, March 1995 and November 2002 respectively. The return on these investments has been recognised as investment income.

INDEBTEDNESS

During the Track Record Period, our short term debt increased from RMB329.0 million as at 31 December 2004, to RMB460.8 million as at 31 December 2005, to RMB612.6 million as at 31 December 2006. Short term debt increased to RMB460.8 million as at 31 December 2005, from RMB329.0 million as at 31 December 2004, primarily because we mainly used short term bank borrowings to fund our capital expenditure in the past due to lower interest rates of short term bank borrowings as compared with those for long term bank borrowings. Short term debt as at 31 December 2006 increased RMB151.8 million to RMB612.6 million due to our increased financing need for capital expenditure for our business expansion. As at 31 December 2006, our short term debt had fixed interest rates ranging from 5.580% to 6.225% and was guaranteed by our Subsidiaries.

During the Track Record Period, our long term debt increased from RMB50.0 million as at 31 December 2004, to RMB90.0 million as at 31 December 2005, to RMB284.6 million as at 31 December 2006. Long-term debt increased to RMB90.0 million as at 31 December 2005, from RMB50.0 million as at 31 December 2004, primarily as a result of the increased borrowings we obtained in connection with the investment we made to expand our production capacity. Long term debt as at 31 December 2006 increased to RMB284.6 million also due to increased borrowings we obtained in connection with the investment we made to expand our production capacity. We anticipate that we will increase our proportion of our long term debt in order to improve our capital structure.

Our gearing ratio, defined as total liabilities as a percentage of total assets, was 76.8%, 87.2% and 76.1% as at 31 December 2004, 2005 and 2006, respectively, and remained stable despite rising debt during the Track Record Period primarily due to injections of equity capital by our Shareholders.

As at 30 April 2007, being the latest practicable date for determining our indebtedness, we had banking facilities in the total amount of RMB1,473.0 million, consisting of used banking facilities of RMB873.3 million and unused banking facilities of RMB599.7 million.

Except as described above, as at 30 April 2007, being the latest practicable date for determining our indebtedness, we did not have any outstanding loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities, borrowings or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance leases, hire purchase commitments, guarantees or other material contingent liabilities.

The following table sets forth our current assets, current liabilities and net current liabilities as at 30 April 2007:

	As at 30 April 2007
	(RMB in millions)
CURRENT ASSETS	
Inventories	365.8
Prepaid lease payments — current portion	0.5
Trade and other receivables	506.5
Amounts due from related parties	0.3
Pledged bank deposits	150.4
Cash and bank balances	200.2
Total	1,223.7
CURRENT LIABILITIES	
Trade and other payables	761.1
Amounts due to related parties	10.8
Tax payable	2.8
Bank borrowings — due within one year	575.5
Total	1,350.2
Net current liabilities	(126.5)

PROPERTY INTERESTS AND VALUATION OF PROPERTIES

For the purpose of the listing of the Shares on the Stock Exchange, our properties were revalued at RMB152.0 million (properties with certificates) and RMB83.0 million (properties without certificates) as at 30 April 2007 by DTZ Debenham Tie Leung Limited. Details of the valuation are summarised in Appendix IV to this prospectus. There is a net revaluation surplus, representing the excess market value of the properties over their book value, approximately RMB63.7 million of which will not be included in our Group's accounts for the year ending 31 December 2007. In accordance with our accounting policy, all properties are stated at cost less accumulated depreciation. As such, the net revaluation surplus arising from the valuation of properties has not been included in the unaudited pro forma adjusted net tangible assets statement under the section headed ''Financial Information — Unaudited Pro Forma Adjusted Net Tangible Assets'' in this prospectus.

Disclosure of the reconciliation of the property interests of our Group and the valuation of such property interests as required under Rule 5.07 of Listing Rules is set out below.

	RMB'000	RMB'000
Valuation of properties with certificates as at 30 April 2007 as set out in the Valuation Report included in Appendix IV		152,006
Valuation of properties without certificates as at 30 April 2007 as set out in the Valuation Report included in Appendix IV		83,000
		235,006
Net book value of the following properties as at 31 December 2006 as set out in the Accountants' Report included in Appendix I		
- Properties	152,964	
- Lease prepayments	20,291	
	173,255	
Less: Depreciation of the properties during the period from 1 January 2007 to 30 April 2007 (unaudited)	1,794	
Less: Amortisation of lease prepayments during the period from 1 January 2007 to 30 April 2007 (unaudited)	188	
Net book value of properties as at 30 April 2007 subject to valuation as set out in the Valuation Report included in Appendix IV		171,273
Net revaluation surplus		63,733

MARKET RISK

We are, in the normal course of business, exposed to risks relating to fluctuations in interest rates and exchange rates, as well as credit risks and commodity price risks. Our risk management strategy aims to minimise the adverse effects of these risks on our financial performance.

Foreign currency exchange risk

Most of our revenue and expenses are denominated in Renminbi. We, however, have bank borrowings denominated in both Renminbi and US Dollars. In addition, our overseas transactions are conducted in US Dollars. We have bank borrowings denominated in US Dollars as at 31 December 2006 in the amount of US$7,000,000. We currently do not have a foreign currency exchange hedging policy.

Interest rate risk

Our interest bearing financial assets are mainly pledged bank deposits and bank balances, which are all short term and carry fixed interest rates. Our interest bearing financial liabilities are mainly short term bank loans, which have fixed interest rates. Accordingly, we believe we are not exposed to significant fair value interest rate risk. We currently do not have an interest rate hedging policy.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet transactions.

DIRECTORS' CONFIRMATION ON NO MATERIAL ADVERSE CHANGE

Up to the date of this prospectus, the Directors confirm that there has been no material adverse change in the financial or trading positions or prospects of the Company since 31 December 2006, the date of the latest audited financial statements of the Company.

Our Directors confirm that they have performed sufficient due diligence on our Company to ensure that, up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects since 31 December 2006, the date of the latest audited financial statements of our Company were made up, and there is no event since 31 December 2006 which would materially affect the information shown in the Accountants' Reports, contained in Appendices IA and IB to this prospectus.

DIVIDEND POLICY

Our Directors may declare dividends, if any, after taking into account, among other things, our results of operations, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, our Memorandum and Articles of Association, the Companies Law, applicable laws and regulations and other factors that our Directors deem relevant. The distribution of dividend for any financial year shall be subject to Shareholders' approval.

Our subsidiary, NGC, declared dividends in the amount of RMB50.0 million during the year ended 31 December 2005. NGC paid the RMB50.0 million dividends during the year ended 31 December 2005 from its distributable profits for the year ended 31 December 2004. In 2006, NGC paid dividends in the amount of RMB86.0 million out of its distributable profits for the year ended 31 December 2005. NGC declared dividends in the amount of RMB58.8 million to the company on 26 February 2007. After deducting various expenses, we declared dividends to our then existing Shareholders (excluding the Pre-IPO Investors and GE Capital) in the amount of US$4.5 million in May 2007 out of our distributable profits. Our future declaration of dividends may or may not reflect our historical declarations of dividends and will be at the absolute discretion of the Board.

WORKING CAPITAL

Taking into account cash from operating activities, credit facilities available to the Group and the net proceeds from the Global Offering, our Directors are of the opinion that we will have sufficient funds to meet our working capital requirements and financial requirements for capital expenditures for at least the next 12 months from the date of this prospectus.

ADJUSTED NET TANGIBLE ASSETS

The following statement of our adjusted net tangible assets is based on our unaudited pro forma net tangible assets as at 31 December 2006, prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effects of the Global Offering on the consolidated net assets as at 31 December 2006, as shown in the Accountants' Report set out in Appendix IB to this prospectus, adjusted as described below:

	Audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2006	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net tangible assets per Share
	RMB'000 (note 1)	RMB'000 (note 2)	RMB'000	RMB (note 3)
Based on an Offer Price of HK$5.38 per Share	497,122	1,442,385	1,939,507	1.62
Based on an Offer Price of HK$7.08 per Share	497,122	1,919,694	2,416,816	2.01

Notes:

(1) The audited consolidated net tangible assets attributable to the equity holders of the Company as at 31 December 2006 is compiled based on the accountants' report of the Group as at 31 December 2006, the text of which is set out in Appendix IB to this prospectus, which is based on the audited consolidated net assets attributable to the equity holders as at 31 December 2006 of RMB526,999,000 with an adjustment for intangible assets of RMB29,877,000 as of 31 December 2006.

(2) The estimated net proceeds from the offer of 300,000,000 new Shares are based on the Offer Price of HK$5.38 and HK$7.08 per Share, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares which may be issued pursuant to any exercise of the Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 1,200,000,000 Shares (being the number of shares expected to be in issue immediately after completion of the Global Offering). No account has been taken of the Shares which may be issued pursuant to any exercise of the Over-allotment Option.

FORECAST FOR THE YEAR ENDING 31 DECEMBER 2007

In the absence of any unforeseen circumstances and on the bases and assumptions set out in Appendix III to this prospectus, certain forecast data of our Group for the year ending 31 December 2007 are set forth below:

Forecast consolidated profit after tax and minority interests but before extraordinary items *(note 1)* . . . . not less than RMB180 million

Unaudited pro forma forecast earnings per Share *(note 2)* . . . . not less than RMB0.15

Notes:

(1) The bases and assumptions on which the above profit forecast for the year ending 31 December 2007 have been prepared are summarised on page III-1 in Appendix III to this prospectus.

(2) The calculation of unaudited pro forma forecast earnings per Share is calculated by dividing the forecast consolidated profit after tax and minority interests but before extraordinary items of our Group for the year ending 31 December 2007 by a total of 1,200,000,000 Shares (assuming the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2007 but without taking into account any Shares which may fall to be issued upon exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by our Company pursuant to the Issuing Mandate and the Repurchase Mandate).

DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules.

FUTURE PLANS

Our goal is to become one of the world's leading mechanical transmission equipment manufacturers specialising in research, design, development, manufacture and distribution of high-quality mechanical transmission equipment and related products. We will focus on the following areas:

- Research, development and further expansion of our business in relation to Wind Gear Transmission Equipment

  We entered into a joint development agreement with GE for the development and manufacture of Wind Gear Transmission Equipment for its 1.5 MW wind turbines in August 2006. We plan to further expand our research, design, development and manufacturing capabilities for our Wind Gear Transmission Equipment. We intend to invest in research and development in order to enhance our technological capabilities for mechanical transmission equipment for 2.0 MW - 2.5 MW wind turbines;

- Development and production of our Marine Gear Transmission Equipment and other marine vessel related products

  We entered into an exclusive joint venture agreement with ZF China to jointly develop, manufacture and sell mechanical transmission equipment for marine vessels in July 2006 with a combined equity investment of RMB30 million. Pursuant to the joint venture agreement, ZF Nanjing, in which we and ZF China have a 40% and 60% interest, respectively, is engaged in the assembly of transmission equipment for marine vessels with spare parts and components to be supplied by us. The joint venture is expected to commence operations by the third quarter of 2007. In addition to the joint venture arrangement with ZF China, we will also invest in the development and production of controllable pitch propellers for export sales to ZF in the international market;

- Research, development and production of mechanical transmission equipment for light rails and high speed rails

  We have closely monitored the development of the market of the light rail and high speed rail industry in the PRC. Based on the 11th Five-Year Plan of the PRC, the roll-out of a city and city-to-city high-speed passenger railway network is being strongly encouraged by the PRC Government. We believe the market for mechanical transmission equipment used in the light rail and high speed rail industry presents a very attractive business opportunity. Through our own research and development effort, we have developed our PCG-01 series of mechanical transmission equipment for light rails. In April 2007, we entered into a development support service agreement with one of the worldwide leading railway infrastructure technical service providers based in France in relation to the design and development of mechanical transmission equipment for light rails and high speed rails. We intend to further strengthen our research and development efforts for mechanical transmission equipment for light rails and high speed rails and plan to construct a production facility and we expect it would commence operations in around 2008;

- Investments in production facilities to manufacture raw materials for critical components (such as forged steel and cast iron products) for our products

  In order to secure supply of our critical components, and reduce our reliance on third party suppliers, we plan to invest in production facilities (through joint venture or otherwise) for the production of certain of our raw materials for our critical components, such as forged steel and cast iron products;

- Technical upgrade of our existing production capabilities

  In order to maintain our market position and satisfy anticipated demand for our existing and new products, we also plan to do a technical upgrade of our existing production lines to achieve a higher operating efficiency.

See the section headed "Financial Information — planned capital expenditure" in this prospectus for further information about our plans for 2007.

USE OF PROCEEDS

Assuming that the Over-allotment Option is not exercised and an Offer Price of HK$6.23 per Share (being the mid-point of the estimated price range), we estimate that the net proceeds to us from the Global Offering will be approximately HK$1,715 million, after deducting the underwriting commissions and other estimated expenses payable by us in relation to the Global Offering. We intend to use the net proceeds to us from the Global Offering as follows:

- approximately 60.0% will be used for research, development and further production capacity expansion in relation to Wind Gear Transmission Equipment;

- approximately 20.0% will be used for research, development and production of Marine Gear Transmission Equipment and other marine vessel related products;

- approximately 5.0% will be used for research, development and production of mechanical transmission equipment for light rails and high-speed rails;

- approximately 5.0% will be used for investments in production facilities to manufacture raw materials for critical components (such as forged steel and cast iron products) for our products; and

- approximately 10.0% will be used for our general working capital.

In the event that the Over-allotment Option is exercised, the additional net proceeds of about HK$268 million (assuming the Offer Price is determined at the mid-point of the stated range) will be applied by the Company in the same proportions as set out above. To the extent that the net proceeds of the Global Offering are not immediately required for the above purposes, we presently intend that such proceeds will be placed on short-term deposits with licensed banks or financial institutions in Hong Kong.

HONG KONG UNDERWRITERS

Morgan Stanley Asia Limited
BNP Paribas Capital (Asia Pacific) Limited
China Everbright Securities (HK) Limited
First Shanghai Securities Limited
Guotai Junan Securities (Hong Kong) Limited

INTERNATIONAL UNDERWRITERS

Morgan Stanley & Co. International plc
BNP Paribas Capital (Asia Pacific) Limited
Daiwa Securities SMBC Hong Kong Limited
Polaris Capital (Asia) Limited

UNDERWRITING ARRANGEMENTS AND EXPENSES

(a) Hong Kong Public Offering

Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, the Company is offering 30,000,000 Hong Kong Offer Shares (subject to adjustment) for subscription by way of Hong Kong Public Offering on and subject to the terms and conditions of this prospectus and the Application Forms and 270,000,000 International Placing Shares (subject to adjustment and any additional new Shares to be issued pursuant to the exercise of the Over-allotment Option) for subscription by way of International Placing on and subject to the terms and conditions of this prospectus.

Subject to (i) the Listing Committee granting listing of, and permission to deal in the Shares, including the Shares to be issued under the Global Offering, the Over-allotment Option and the Share Option Scheme, subject only to allotment and/or despatch of Share certificates for the Offer Shares, on or before the Business Day preceding the Listing Date (or such later date as the Global Co-ordinator (on behalf of the Underwriters) may agree in writing) and such approval and permission not having been subsequently revoked prior to 8:00 a.m. on the Listing Date and (ii) certain other conditions set out in the Hong Kong Underwriting Agreement, the Hong Kong Underwriters have severally agreed to apply or procure applications, on the terms and conditions of this prospectus and the related Application Forms, for the Hong Kong Offer Shares now being offered and which are not taken up under the Hong Kong Public Offering.

Grounds for termination

The obligations of the Hong Kong Underwriters to subscribe or procure subscribers for the Hong Kong Offer Shares under the Hong Kong Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

(a) there shall develop, occur, exist or come into effect:

(i) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any court or other competent authority of the Cayman Islands, Hong Kong, the PRC, the US, the European Union, Japan or any other relevant jurisdiction; or

(ii) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change in local, national or international financial, political, military, industrial, economic, currency market, fiscal or regulatory or market conditions or any monetary or trading settlement system (including but not limited to conditions in stock and bond markets, money and foreign exchange markets and inter-bank markets) in or affecting the Cayman Islands, Hong Kong, the PRC, the US, the European Union, Japan or any other relevant jurisdiction; or

(iii) any suspension or limitation on trading in shares or securities generally on the New York Stock Exchange, the Hong Kong Stock Exchange, the Shanghai Stock Exchange or the Shenzhen Stock Exchange, or minimum or maximum prices for trading having been fixed, or maximum ranges for prices having been required, by any of the said exchanges or by such system or by order of any regulatory or governmental authority, or a disruption has occurred in securities settlement or clearance services or procedures in the Cayman Islands, Hong Kong, the PRC, the US, the European Union, Japan or any other relevant jurisdiction; or

(iv) a change or development occurs involving a change in taxation or exchange control (or the implementation of any exchange control) or currency exchange rates in the Cayman Islands, Hong Kong, the PRC, the US, the European Union, Japan or any other relevant jurisdiction; or

(v) any change or development involving a prospective change in the condition, financial or otherwise, or in the earnings, business affairs, business prospects or trading position of the Company or any member of the Group, including any litigation or claim of any third party being threatened or instigated against our Company or any member of our Group; or

(vi) any change or development involving a prospective change, or a materialisation of, any of the risks set out in the section headed "Risk Factors" in this prospectus; or

(vii) any general moratorium on commercial banking activities in Hong Kong (imposed by the Financial Secretary and/or the Hong Kong Monetary Authority or other competent authority), New York (imposed at Federal or New York State level or other competent authority), the PRC, the Cayman Islands, the European Union, Japan or any other relevant jurisdiction; or

(viii) any outbreak or escalation of hostilities (whether or not war is or has been declared) or other state of emergency or calamity or wide-spread epidemic or political or social crisis involving the US, the PRC, Hong Kong, the Cayman Islands, the European Union, Japan or any escalation thereof, or the declaration by the US, the PRC, Hong Kong or the Cayman Islands, of a national emergency or war; or

(ix) any event of force majeure, including without limitation any act of God, war, riot, public disorder, civil commotion, economic sanctions, fire, flood, explosion, epidemic, terrorism (whether or not responsibility has been claimed), labour dispute, strike or lock-out involving the US, the PRC, Hong Kong, the Cayman Islands, the European Union or Japan,

which, in the sole opinion of the Global Co-ordinator (for itself and on behalf of the Hong Kong Underwriters):

(A) is or may be or is likely to be materially adverse to the business, financial or other condition or prospects of the Company or the Group or, in the case of sub-paragraph (iv) above, to any present or prospective shareholder of the Company in his/her/its capacity as such; or

(B) has or might have or is likely to have a material adverse effect on the success of the Global Offering or the level of Offer Shares being applied for or accepted or the distribution of Offer Shares; or

(C) makes it inadvisable, inexpedient or impracticable to proceed with the Global Offering or the delivery of the Offer Shares on the terms and in the manner contemplated by this prospectus; or

(b) there comes to the notice of the Global Co-ordinator any matter or event showing any of the warranties given by the Company and the Covenantors in the Hong Kong Underwriting Agreement to be untrue, inaccurate or misleading in any respect which is or, in the sole opinion of the Global Co-ordinator, is likely to be material in the context of the Global Offering when given or repeated; or

(c) there comes to the notice of the Global Co-ordinator any breach on the part of the Company of any of the provisions of the Hong Kong Underwriting Agreement or the International Underwriting Agreement; or

(d) any matter has arisen or been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, not having been disclosed in this prospectus, constitutes a material omission therefrom; or

(e) any statement contained in this prospectus, the Application Forms, the formal notice of the Company and any announcements in the agreed form issued by the Company in connection with the Hong Kong Public Offering (including any amendment or supplement thereto) was, has or may become untrue, incorrect or misleading in any material respect; or

(f) there shall have occurred any event, act or omission which gives or is likely to give rise to any liability of a material nature of the Group pursuant to the indemnities referred to in the Hong Kong Underwriting Agreement; or

(g) a valid demand by any creditor for repayment or payment of any indebtedness of the Company or any member of the Group or in respect of which the Company or any member of the Group is liable prior to its stated maturity which demand has or could reasonably be expected to have a material adverse effect on the Group taken as a whole; or

(h) a petition is presented for the winding-up or liquidation of the Company or any member of the Group or the Company or any member of the Group makes any composition or arrangement with its creditors or enters into a scheme of arrangement or any resolution is passed for the winding-up, of the Company or any member of the Group or a provisional liquidator, receiver or manager is appointed over all or part of the assets or undertaking of the Company or any member of the Group or anything analogous thereto occurs in respect of the Company or any member of the Group, which in the sole opinion of the Global Co-ordinator, may or is likely to be material in the context of the Global Offering provided that the Global Co-ordinator shall, to the extent practicable, seek to consult with the Company on the effect of any such development.

then the Global Co-ordinator (on behalf of the Hong Kong Underwriters) may, and upon giving notice in writing to the Company, terminate the Hong Kong Underwriting Agreement with immediate effect.

Undertakings to the Hong Kong Underwriters pursuant to the Hong Kong Underwriting Agreement

Pursuant to the Hong Kong Underwriting Agreement, we have undertaken to the Global Co-ordinator and the Hong Kong Underwriters, among other things, that we will, and each of the Covenantors, namely Fortune Apex, Luckever and Wiaearn, has undertaken to the Global Co-ordinator and the Hong Kong Underwriters to procure, among other things, that we will not:

(i) except pursuant to the Global Offering (including the Over-allotment Option), the Capitalisation Issue, the exercise of the subscription rights attaching to the options that may be granted under the Share Option Scheme, without the prior written consent of the Global Co-ordinator, and subject always to the provisions of the Listing Rules, offer, allot or issue, or agree to allot or issue, sell or agree to sell, grant or agree to grant any option, right to subscribe or purchase or warrant over, either directly or indirectly, conditionally or unconditionally, any Shares or any securities convertible into or exchangeable for or that represent the right to receive such Shares or securities or enter into any swap, derivative, repurchase, lending, pledge or other arrangement that transfers to another, in whole or in part, any of the economic consequences of subscription or ownership of Shares or such securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise or announce any intention to do so during the period commencing from the date of the Hong Kong Underwriting Agreement up to and including the date falling six months after the Listing Date (the "Lock-up Period"); and

(ii) at any time during the Lock-up Period, issue or create any mortgage, pledge, charge or other security interest or any rights in favour of any other person over, directly or indirectly, conditionally or unconditionally, any Shares or other securities of the Company or any interest therein (including but not limited to any securities that are convertible into or exchangeable for, or that represent the right to receive, any Shares or securities of the Company) or repurchase any Shares or securities of the Company or grant any options, warrants or other rights to subscribe for any Shares or other securities of the Company or agree to do any of the foregoing, except pursuant to the Global Offering (including pursuant to any exercise of the Over-allotment Option), the Capitalisation Issue or the exercise of the subscription rights attaching to the options that may be granted under the Share Option Scheme.

We have also undertaken with the Global Co-ordinator and the Hong Kong Underwriters, among other things, that we will not at any time within the six-month period immediately following the expiry of the Lock-up Period (the "Second Six-Month Period") do any of the acts set out in (i) above such that the Covenantors together, directly or indirectly, would cease to be the controlling shareholders.

Each of the Covenantors has also undertaken to the Global Co-ordinator and the Hong Kong Underwriters and us, among other things, that:

(i) it will comply with all the applicable restrictions and requirements under the Listing Rules on the disposal by it or by any registered holder on its behalf, of any Shares or other securities of the Company in respect of which it is shown in this prospectus to be the beneficial owner (directly or indirectly);

(ii) neither it nor any of its associates or companies controlled by it has any present intention of disposing of any Shares or other securities of the Company in respect of which it is shown in this prospectus to be the beneficial owner (directly or indirectly) (or have any beneficial interest therein), save in respect of Fortune Apex in connection with the Stock Borrowing Agreement;

(iii) without the prior written consent of the Global Co-ordinator, it shall not, within the Lock-up Period, directly or indirectly, and will procure that none of its associates or companies controlled by it or any nominee or trustee holding in trust for it shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over) any of the Shares in respect of which it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares or other securities of the Company or enter into any swap, derivative, lending, pledge or other arrangement that transfers directly or indirectly to another, in whole or in part, any of the economic consequences of the acquisition or ownership of any such Shares in respect which it is the beneficial owner (directly or indirectly) and/or which are registered in its name or such other securities, whether any of the foregoing transactions is to be settled by delivery of Shares or such securities, in cash or otherwise, or announce any intention do so, save in connection with the Stock Borrowing Agreement and subject always to compliance with the provisions of the Listing Rules; and

(iv) without the prior written consent of the Global Co-ordinator, it shall not within the Second Six-Month Period, directly or indirectly, and will procure that none of its associates (as defined in the Listing Rules) or companies controlled by it or any nominee or trustee holding in trust for it shall, offer for sale, sell, transfer, contract to sell, or otherwise dispose of (including without limitation by the creation of any option, right, warrant to purchase or otherwise transfer or dispose of, or any lending, charges, pledges or encumbrances over) any of the Shares in respect of which it is shown in this prospectus to be the beneficial owner (directly or indirectly) or any other securities convertible into or exchangeable for or which carry a right to subscribe, purchase or acquire any such Shares or any other securities of the Company or enter into any swap, derivative, lending, pledge or other arrangement that transfers directly or indirectly to another, in whole or in part, any of the economic consequence of the acquisition or ownership of any such Shares that may result in the Covenantors together ceasing to be the controlling shareholders of the Company at any time during the Second Six-Month Period and subject always to compliance with the provisions of the Listing Rules and further that, in the event of a disposal of any Shares or any interest therein at any time during the Second Six-Month Period, it will take all reasonable steps to ensure that any such act, if done, will not create a disorderly or false market for any Shares or other securities of the Company or any interest therein.

Undertakings to the Stock Exchange pursuant to the Listing Rules

In addition to the undertakings given by the Company and Covenantors to the Hong Kong Underwriters under the Hong Kong Underwriting Agreement, certain undertakings have been given by the Company and members of the Controlling Group pursuant to Rule 10.07 and 10.08 of the Listing Rules:

By the Company

Pursuant to Rule 10.08 of the Listing Rules, except pursuant to the Global Offering or any issue of Shares or securities in compliance with Rule 10.08(1) to (4) of the Listing Rules, at any time during the period of six months from the Listing Date, we will not, without the prior consent of the Stock Exchange and unless in compliance with the requirements of the Listing Rules, allot or issue or agree to allot or issue any Shares or other securities of the Company (including warrants or other convertible securities) or grant or agree to grant any options, rights, interests or encumbrances over any Shares or other securities of the Company or enter into any swap or other arrangement that transfers, in whole or in part, any of the economic consequence of ownership of any Shares or offer to or agree to do any of the foregoing or have any intention to do so.

By the controlling shareholders

Pursuant to Rule 10.07(1) of the Listing Rules, each of the members of the Controlling Group (being a group of controlling shareholders) has undertaken to the Stock Exchange that he/she/it shall not and shall procure that the relevant registered holder shall not, without the approval of the Stock Exchange:

(i) during the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is six months from the Listing Date dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of, any of the Shares beneficially owned by any of them; and

(ii) the period of six months commencing on the date on which the period referred to in (i) above expires, dispose of, or enter into any agreement to dispose of or otherwise create any options, rights, interests or encumbrances in respect of any of the Shares if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, the Controlling Group would cease to be controlling shareholders of the Company.

Each of the members of the Controlling Group has further undertaken to the Stock Exchange and us, that he/she/it will, within the period commencing on the date by reference to which disclosure of its shareholding is made in this prospectus and ending on the date which is 12 months from the Listing Date, immediately inform us of :

(i) any pledges or charges of any Shares beneficially owned by it and the number of such Shares so pledged or charged; and

(ii) any indication received by it, either verbal or written, from any pledgee or chargee of any Shares pledged or charged that such Shares so pledged or charged will be disposed of.

We will also inform the Stock Exchange as soon as we have been informed of the above matters (if any) by any of the members of the Controlling Group and disclose such matters by way of announcement which is published in the newspapers as soon as possible after being so informed.

(b) International Placing

International Underwriting Agreement

In connection with the International Placing, the Company is expected to enter into the International Underwriting Agreement with the International Underwriters and the Global Co-ordinator. Under the International Underwriting Agreement, the International Underwriters would, subject to certain conditions set out therein, severally agree to purchase the International Placing Shares being offered pursuant to the International Placing or procure purchasers for such International Placing Shares.

Under the International Underwriting Agreement, the Company will grant to the International Underwriters the Over-allotment Option, exercisable by the Global Co-ordinator on behalf of the International Underwriters within 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, to require the Company to allot and issue up to an aggregate of 45,000,000 additional Shares, representing in aggregate not more than 15% of the maximum number of the Offer Shares initially available under the Global Offering. These additional Shares will be issued at the Offer Price and will be solely for the purpose of covering over-allocations in the International Placing, if any.

(c) Underwriting Commission

The Hong Kong Underwriters will receive an underwriting commission of 3.5% on the aggregate Offer Price of all the Hong Kong Offer Shares, out of which they will pay any sub-underwriting commission. In addition, we may, at our sole discretion, pay the Global Co-ordinator an additional incentive fee of up to 1% on the Offer Price of the total Offer Shares. For unsubscribed Hong Kong Offer Shares reallocated to the International Placing, we will pay an underwriting commission at the rate applicable to the International Placing and such commission will be paid to the relevant International Underwriters. The commission payable to the Underwriters, together with the Stock Exchange listing fees, the Stock Exchange trading fee, the SFC transaction levy, legal and other professional fees, printing and other expenses relating to the Global Offering which are currently estimated to be approximately HK$154 million in aggregate (based on an Offer Price of HK$6.23 per Share, being the mid-point of the stated range of the Offer Price of between HK$5.38 and HK$7.08 per Share and the assumption that the Over-allotment Option is not exercised) is to be borne by the Company.

(d) Underwriters' interests in the Company

Other than pursuant to the Underwriting Agreements, none of the Underwriters has any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

Pursuant to Rule 3A, 19 of the Listing Rules, we have appointed Guotai Junan Capital Limited as our compliance adviser for the period commencing on the Listing Date and ending on the date on which our financial results for the first full financial year commencing after the Listing Date is required to be published in compliance with Rule 13.46 of the Listing Rules.

OFFER PRICE AND PRICE PAYABLE ON APPLICATION

The Offer Price will not be more than HK$7.08 and is expected to be not less than HK$5.38 per Offer Share. Based on the maximum Offer Price of HK$7.08 per Offer Share, plus 1% brokerage fee, 0.004% SFC transaction levy (per side) and 0.005% Stock Exchange trading fee (per side), one board lot of 1,000 Shares will amount to a total of HK$7,151.43.

The Offer Price is expected to be determined by the Company and the Global Co-ordinator (on behalf of the Underwriters) on Tuesday, 26 June 2007, or such later date as may be agreed by the Company and the Global Co-ordinator but in any event no later than Monday, 2 July 2007.

If, based on the level of interests expressed by prospective professional and institutional investors during the book-building process, the Global Co-ordinator (on behalf of the Underwriters, and with the consent of the Company) thinks it appropriate (for instance, if the level of interests is below the indicative Offer Price range), the indicative Offer Price range may be reduced below that as stated in this prospectus at any time prior to the morning of the last day for lodging applications under the Hong Kong Public Offering. In such case, the Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Hong Kong Public Offering cause there to be published in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) notice of the reduction of the indicative Offer Price range. Such notice will also include any financial information which may change as a result of any such reduction. **If applications for Hong Kong Offer Shares have been submitted prior to the day which is the last day for lodging applications under the Hong Kong Public Offering, then even if the Offer Price is so reduced, such applications cannot be subsequently withdrawn.**

If, for any reason, the Offer Price is not agreed between the Company and the Global Co-ordinator (on behalf of the Underwriters) before the Price Determination Date (or such later day as agreed), the Global Offering will not proceed and will lapse.

CONDITIONS

Acceptance of all applications for the Global Offering will be conditional upon:

(i) the Listing Committee granting a listing of, and permission to deal in the Shares, including the Shares to be issued under the Global Offering, the Over-allotment Option and the Share Option Scheme, subject only to allotment and/or despatch of Share certificates for the Offer Shares;

(ii) the Offer Price having been duly determined and the execution and delivery of the International Underwriting Agreement on or about the Price Determination Date; and

(iii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including the waiver of any condition(s) by the Global Co-ordinator on behalf of the Underwriters) and not being terminated in accordance with the terms of that agreement or otherwise, in each case on or before the dates and times specified in the Underwriting Agreements (unless and to the extent such conditions are validly waived on or before such dates and times) and in any event not later than Friday, 20 July 2007.

The consummation of each of the Hong Kong Public Offering and the International Placing is conditional upon, among other things, the other becoming unconditional and not having been terminated in accordance with its terms.

If the above conditions are not fulfilled or waived, prior to the dates and times specified, the Global Offering will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Hong Kong Public Offering will be caused to be published by us in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on the next day following such lapse. In such eventuality, all application monies will be returned, without interest, on the terms set out in "How to Apply for the Hong Kong Offer Shares" in this prospectus. In the meantime, the application monies will be held in separate bank account(s) with the receiving bankers or other licensed bank(s) in Hong Kong.

Share certificates for the Hong Kong Offer Shares are expected to be issued on 3 July 2007 but will only become valid certificates of title at 8:00 a.m. on 4 July 2007, provided that (i) the Global Offering has become unconditional in all respects and (ii) the right of termination as described in the section headed "Underwriting — Underwriting Arrangements and Expenses — (a) Hong Kong Public Offering — Grounds for termination" in this prospectus has not been exercised.

OFFER MECHANISM — BASIS OF ALLOCATION OF SHARES

The Global Offering

The Global Offering consists of the International Placing and the Hong Kong Public Offering. The 300,000,000 Shares initially offered will comprise 270,000,000 Shares being offered under the International Placing and 30,000,000 Shares being offered under the Hong Kong Public Offering. The 300,000,000 Shares being offered under the Global Offering will represent about 25% of the Company's enlarged share capital immediately after completion of the Global Offering (without taking into account the exercise of the Over-allotment Option).

Subject to possible reallocation on the basis set forth below, 30,000,000 Shares, representing 10% of the total number of Shares initially being offered under the Global Offering, will be offered to the public in Hong Kong under the Hong Kong Public Offering. The Hong Kong Public Offering is open to all members of the public in Hong Kong as well as to institutional and professional investors.

Out of the total 300,000,000 Shares offered pursuant to the Global Offering, 270,000,000 Shares, representing 90% of the total number of Shares initially being offered under the Global Offering, will be placed with professional and institutional investors in Hong Kong, the United States, Europe and elsewhere under the International Placing. The International Placing Shares will be offered in Hong Kong, Europe and other jurisdictions outside the United States in offshore transactions, as defined in, and in reliance on, Regulation S, and in the United States to QIBs, as defined in and in reliance on, Rule 144A.

In connection with the Global Offering, the Company intends to grant to the Global Co-ordinator on behalf of the International Underwriters the Over-allotment Option which is exercisable at any time within 30 days from the last date for the lodging of applications under the Hong Kong Public Offer. Pursuant to the Over-allotment Option, the Company may be required to issue up to an aggregate of 45,000,000 additional Shares (representing 15% of the number of Shares initially being offered under the Global Offering) to cover over-allocations in the International Placing. Please refer to the paragraph "Over-allotment and stabilisation" below for further details.

The levels of indication of interest in the International Placing and the basis of allotment and the results of application under the Hong Kong Public Offering are expected to be published in the South China Morning Post (in English) and in the Hong Kong Economic Times (in Chinese) on or before Tuesday, 3 July 2007. The allotment results as published in the newspapers will also be posted on the Company's website (www.chste.com) on Tuesday, 3 July 2007.

The International Placing

The Company is initially offering 270,000,000 International Placing Shares, representing 90% of the total number of Shares initially being offered in the Global Offering, for subscription by way of the International Placing. The International Placing is fully underwritten by the International Underwriters, subject to the pricing agreement and other terms and conditions of the International Underwriting Agreement.

The International Underwriters are soliciting from prospective professional and institutional investors indications of interest in acquiring International Placing Shares in the International Placing. Professional investors generally include brokers, dealers and companies (including fund managers) whose ordinary business involves dealing in shares and other securities and entities which regularly invest in shares and other securities. Prospective professional and institutional investors will be required to specify the number of International Placing Shares they would be prepared to acquire either at different prices or at a particular price. This process is known as "book building". In Hong Kong, retail investors should apply for Shares in the Hong Kong Public Offering, as retail investors applying for International Placing Shares, including retail investors applying through banks and other institutions, are unlikely to be allocated any International Placing Shares.

Allocation of the International Placing Shares pursuant to the International Placing is based on a number of factors, including the level and timing of demand and whether or not it is expected that the relevant investor is likely to buy further and/or hold or sell its Shares after the Listing. Such allocation is generally intended to result in a distribution of the International Placing Shares on a basis which would lead to the establishment of a broad shareholder base to the benefit of the Company and its Shareholders as a whole.

If the Hong Kong Public Offering is not fully subscribed, the Global Co-ordinator may reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Placing.

The International Underwriters or selling agents nominated by the International Underwriters shall, on behalf of the Company, conditionally place the International Placing Shares with professional and institutional investor in the United States (pursuant to Rule 144A) and in Hong Kong, Europe and other regions pursuant to Regulation S. The International Placing of the International Placing Shares shall be subject to the Global Offering restrictions set out under the section "Information about this Prospectus and the Global Offering" in this prospectus.

The International Placing is conditional on the same conditions as set out in the paragraph "Conditions" above. The total number of International Placing Shares to be allotted and issued pursuant to the International Placing may change as a result of the clawback arrangement referred to in the section "The Hong Kong Public Offering" below, the exercise of the Over-allotment Option and any reallocation of unsubscribed Shares originally included in the Hong Kong Public Offering.

The Hong Kong Public Offering

The Company is initially offering 30,000,000 Hong Kong Offer Shares, representing 10% of the total number of Shares initially being offered in the Global Offering, for subscription by way of a public offer in Hong Kong. The Hong Kong Offer Shares are being offered at the Offer Price. The Hong Kong Public Offering is fully underwritten by the Hong Kong Underwriters, subject to the terms and conditions of the Hong Kong Underwriting Agreement.

The total number of Shares available for subscription under the Hong Kong Public Offering (after taking into account of any reallocation referred to below) is to be divided equally into two pools for allocation purposes: pool A and pool B. The Shares in pool A will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of HK$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) or less. The Shares in pool B will be allocated on an equitable basis to applicants who have applied for Shares with an aggregate subscription price of more than HK$5 million (excluding the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee payable) and up to the value of pool B. Investors should be aware that applications in pool A and applications in pool B may receive different allocation ratios. If Shares in one (but not both) of the pools are undersubscribed, the surplus Shares will be transferred to the other pool to satisfy demand in that pool and be allocated accordingly.

Applicants can only receive an allocation of Shares from either pool A or pool B but not from both pools. Multiple or suspected multiple applications within either pool or between pools and any application for more than the total number of Shares originally allocated to each pool (i.e., 15,000,000 Shares) are liable to be rejected. Each applicant under the Hong Kong Public Offering will also be required to give an undertaking and confirmation in the Application Form submitted by him that he and any person(s) for whose benefit he is making the application have not received any Shares under the International Placing, and such applicant's application is liable to be rejected if the said undertaking and/or confirmation is breached and/or untrue (as the case may be).

The allocation of the Shares between the International Placing and the Hong Kong Public Offering is subject to adjustment. If the number of Shares validly applied for under the Hong Kong Public Offering represents 15 times or more but less than 50 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then Shares will be reallocated to the Hong Kong Public Offering from the International Placing, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 90,000,000 Shares, representing 30% of the Shares initially available for subscription under the Global Offering. If the number of Shares validly applied for under the Hong Kong Public Offering represents 50 times or more but less than 100 times the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased so that the total number of Shares available for subscription under the Hong Kong Public Offering will be 120,000,000 Shares, representing 40% of the Shares initially available for subscription under the Global Offering. If the number of Shares validly applied for under the Hong Kong Public Offering represents 100 times or more the number of Shares initially available for subscription under the Hong Kong Public Offering, then the number of Shares to be reallocated to the Hong Kong Public Offering from the International Placing will be increased, so that the total number of Shares available for subscription under the Hong Kong Public Offering will increase to 150,000,000 Shares, representing 50% of the Shares initially available for subscription under the Global Offering. In each such case, the additional Shares reallocated to the Hong Kong Public Offering will be allocated equally between pool A and pool B and the number of Shares allocated to the International Placing will be correspondingly reduced.

In addition, if the Hong Kong Public Offering is not fully subscribed, the Global Co-ordinator in its discretion may reallocate all or any unsubscribed Shares originally included in the Hong Kong Public Offering to the International Placing.

Morgan Stanley is the Global Co-ordinator and lead manager of the Hong Kong Public Offering which is underwritten at the Offer Price by the Hong Kong Underwriters, on and subject to the terms and conditions of the Underwriting Agreements.

Allocation of Hong Kong Offer Shares to investors under the Hong Kong Public Offering will be based solely on the level of valid applications received under the Hong Kong Public Offering. The basis of allocation may vary, depending on the number of Hong Kong Offer Shares validly applied for by applicants. This could, where appropriate, consist of balloting which means that some applicants may receive a higher allocation than others who have applied for the same number of Hong Kong Offer Shares and those applicants who are not successful in the ballot may not receive any Hong Kong Offer Shares.

OVER-ALLOTMENT AND STABILISATION

The Over-allotment Option

In connection with the Global Offering, our Company intends to grant to the Global Co-ordinator on behalf of the International Underwriters the Over-allotment Option, which will be exercisable by the Global Co-ordinator on behalf of the International Underwriters within 30 days from the last day for the lodging of applications under the Hong Kong Public Offering, i.e. Wednesday, 25 July 2007. Pursuant to the Over-allotment Option, our Company may be required to issue and allot at the Offer Price up to an aggregate of 45,000,000 additional Shares, representing 15% of the total number of Shares initially available under the Global Offering, in connection with over-allocations in the International Placing, if any. If the Over-allotment Option is exercised in full, the total Offer Shares will represent approximately 27.71% of our Company's enlarged issued share capital following the completion of the Global Offering and the exercise of the Over-allotment Option. In the event that the Over-allotment Option is exercised, a press announcement will be made.

Stabilising Action

In connection with the Global Offering, the Global Co-ordinator, on behalf of the International Underwriters, or any person acting for it, may over-allocate or effect transactions with a view to supporting the market price of the Shares at a level higher than that which might otherwise prevail for a limited period after the issue date. Such transactions, if commenced, may be discontinued at any time. The Global Co-ordinator has been or will be appointed as stabilising manager for purposes of the Global Offering in accordance with the Securities and Futures (Price Stabilising) Rules made under the SFO and, should stabilising transactions be effected in connection with the Global Offering, this will be at the absolute discretion of the Global Co-ordinator.

Following any over-allotment of Shares in connection with the Global Offering, the Global Co-ordinator or any person acting for it may cover such over-allocation by (among other methods) making purchases in the secondary market or exercising the Over-allotment Option in full or in part, or by any combination of purchases and exercise of the Over-allotment Option. Any such purchases will be made in compliance with all applicable laws and regulatory requirements including the Securities and Futures (Price Stabilising) Rules made under the SFO. The number of Shares which can be over-allocated will not exceed the number of Shares which may be issued upon exercise of the Over-allotment Option, being 45,000,000 Shares representing 15% of the Shares initially available under the Global Offering.

In order to facilitate the exercise of over-allocations in connection with the Global Offering, the Stock Borrowing Agreement will be entered into between Fortune Apex and Morgan Stanley & Co. International plc pursuant to which Fortune Apex will, if requested by Morgan Stanley & Co. International plc and subject to the terms of the Stock Borrowing Agreement, make available to Morgan Stanley & Co. International plc up to 45,000,000 Shares held by them which is equivalent to maximum number of new Shares to be allotted and issued by the Company under the Over-allotment Option, by way of stock borrowing, in order to cover the over-allocations in connection with the International Placing, if any.

Pursuant to Rule 10.07(3) of the Listing Rules, the Stock Borrowing Agreement will not be subject to the restrictions of Rule 10.07(1)(a) of the Listing Rules which otherwise restricts the disposal of shares by controlling shareholders following a new listing on the conditions that:

(1) the stock borrowing arrangements as contemplated under the Stock Borrowing Agreement with Fortune Apex will only be effected for the sole purpose of covering any short position prior to the exercise of the Over-allotment Option;

(2) the maximum number of Shares to be borrowed from Fortune Apex by Morgan Stanley & Co. International plc will be limited to the maximum number of Shares which may be allotted and issued by the Company upon full exercise of the Over-allotment Option;

(3) the same number of Shares so borrowed (if any) must be returned to Fortune Apex or their nominees (as the case may be), no later than three Business Days after the earlier of (a) the last day on which the Over-allotment Option may be exercised; and (b) the day on which the Over-allotment Option is exercised in full;

(4) the stock borrowing arrangements as contemplated under the Stock Borrowing Agreement will be effected in compliance with all applicable laws, rules and regulatory requirements; and

(5) no payments will be made to Fortune Apex by Morgan Stanley & Co. International plc under the Stock Borrowing Agreement.

The possible stabilising action which may be taken by the Global Co-ordinator in connection with the Global Offering may involve (among other things) (i) over-allotment of Shares, (ii) purchases of Shares, (iii) establishing, hedging and liquidating positions in Shares, (iv) exercising the Over-allotment Option in whole or in part and/or (v) Global Offering or attempting to do any of the foregoing.

Specifically, prospective applicants for and investors in the Offer Shares should note that:

- the Global Co-ordinator may, in connection with any stabilising action, maintain a long position in the Shares;
- there is no certainty regarding the extent to which and the time period for which the Global Co-ordinator will maintain such a position;
- liquidation of any such long position by the Global Co-ordinator may have an adverse impact on the market price of the Shares;
- no stabilising action can be taken to support the price of the Shares for longer than the stabilising period which will begin on the Listing Date and is expected to expire on the 30th day after the date expected to be the last day for lodging applications under the Hong Kong Public Offering. After this date, when no further action may be taken to support the price of the Shares, demand for the Shares, and therefore the price of the Shares, could fall;
- the price of any security (including the Shares) cannot be assured to stay at or above its offer price by the taking of any stabilising action; and
- stabilising bids may be made or transactions effected in the course of the stabilising action at any price at or below the Offer Price, which means that stabilising bids may be made or transactions effected at a price below the price paid by applicants for, or investors in, the Shares.

LISTING ON ANY OTHER STOCK EXCHANGE

Our Directors are not considering any listing of our Company on any other overseas stock exchange. The Company has not submitted any application nor obtained any approval for the listing of the Shares.

1. METHODS TO APPLY FOR THE HONG KONG OFFER SHARES

You may apply for the Hong Kong Offer Shares by using one of the following methods:

- using a **WHITE** or **YELLOW** Application Form; or
- electronically instructing HKSCC to cause HKSCC Nominees to apply for Hong Kong Offer Shares on your behalf.

2. WHICH APPLICATION METHOD YOU SHOULD USE

(a) WHITE Application Forms

Use a **WHITE** Application Form if you want the Hong Kong Offer Shares to be registered in your own name.

(b) YELLOW Application Forms

Use a **YELLOW** Application Form if you want the Hong Kong Offer Shares to be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

(c) Instruct HKSCC to make an electronic application on your behalf

Instead of using a **YELLOW** Application Form, you may electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf via CCASS. Any Hong Kong Offer Shares allocated to you will be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or your designated CCASS Participant's stock account.

Note:

The Hong Kong Offer Shares are not available to existing beneficial owners of the Shares, the Directors, chief executives or substantial Shareholders (as defined in the Listing Rules) of the Company or any of their associates (as defined in the Listing Rules) or United States persons (as defined in Regulation S) or persons who do not have a Hong Kong address.

3. WHERE TO COLLECT THE APPLICATION FORMS

You can collect a **WHITE** Application Form and this prospectus from:

Any participant of the Stock Exchange

Morgan Stanley Asia Limited
30th Floor, Three Exchange Square
Central
Hong Kong

BNP Paribas Capital (Asia Pacific) Limited
61st Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong

China Everbright Securities (HK) Limited
36th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

First Shanghai Securities Limited
19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

Guotai Junan Securities (Hong Kong) Limited
27th Floor, Low Block
Grand Millennium Plaza
181 Queen's Road Central
Hong Kong

or any of the following branches of Bank of Communications Co., Ltd., Hong Kong Branch at the following addresses

Hong Kong Island	Hong Kong Branch	20 Pedder Street, Central
	Central District Sub-Branch	G/F., 123-125A Des Voeux Road, Central
	Quarry Bay Sub-Branch	C-D, 981 King's Road, Quarry Bay
	North Point Sub-Branch	442-448 King's Road, North Point
	Wanchai Sub-Branch	32-34 Johnston Road, Wanchai
Kowloon	Cheung Sha Wan Plaza Sub-Branch	Unit G04, Cheung Sha Wan Plaza, 833 Cheung Sha Wan Road
	Mongkok Sub-Branch	Shops A&B, G/F., Hua Chiao Commercial Centre, 678 Nathan Road, Mongkok

	Jordan Road Sub-Branch	37U Jordan Road, Jordan Road, Kowloon
	Ngau Tau Kok Sub-Branch	Shop G1, G/F., Phase I, Amoy Plaza, 77 Ngau Tau Kok Road
	Wong Tai Sin Sub-Branch	Shops 127-129, 1/F Lung Cheung Mall, 136 Lung Cheung Road, Wong Tai Sin
New Territories	Tsuen Wan Sub-Branch	Shop G10-11, Pacific Commercial Plaza, Bo Shek Mansion, 328 Sha Tsui Road
	Yuen Long Sub-Branch	Man Yu Building, 2 Tai Fung Street
	Tai Po Sub-Branch	Shop 1, Wing Fai Plaza, 29-35 Ting Kok Road, Tai Po
	Sheung Shui Sub-Branch	Shops 1010-1014, G/F., Sheung Shui Centre Shopping Arcade, Sheung Shui
	Shatin Sub-Branch	Shop No.193, Level 3, Lucky Plaza, 1-15 Wang Pok Street, Shatin

or any of the following branches of Bank of China (Hong Kong) Limited at the following addresses:

Hong Kong Island	Bank of China Tower Branch	3/F, 1 Garden Road
	Shek Tong Tsui Branch	534 Queen's Road West, Shek Tong Tsui
	Connaught Road Central Branch	13-14 Connaught Road Central
	United Centre Branch	Shop 1021, United Centre, 95 Queensway
	Des Voeux Road West Branch	111-119 Des Voeux Road West
Kowloon	Mong Kok Branch	589 Nathan Road, Mong Kok

	Yau Ma Tei Branch	471 Nathan Road, Yau Ma Tei
	Tsim Sha Tsui East Branch	Shop G02-03, Inter-Continental Plaza, 94 Granville Road, Tsim Sha Tsui
	Wang Kwun Road Branch	Unit G1, Nan Fung Commercial Centre, Wang Kwun Road, Kowloon Bay
	Hoi Yuen Road Branch	55 Hoi Yuen Road, Kwun Tong
	Festival Walk Branch	Unit LG256, Festival Walk, Kowloon Tong
New Territories	Tai Po Branch	68-70 Po Heung Street, Tai Po Market
	Ma On Shan Plaza Branch	Shop 2103, Level 2, Ma On Shan Plaza, Sai Sha Road, Ma On Shan
	Ha Kwai Chung Branch	192-194 Hing Fong Road, Kwai Chung
	Tuen Mun San Hui Branch	G13-G14 Eldo Court, Heung Sze Wui Road, Tuen Mun

Your can collect a **YELLOW** Application Form and this prospectus from:

(i) the **depository counter of HKSCC** at 2nd Floor, Vicwood Plaza, 199 Des Voeux Road Central, Hong Kong; or

(ii) your stockbroker, who may have such Application Form and this prospectus available.

4. HOW TO COMPLETE THE APPLICATION FORMS

There are detailed instructions on each Application Form. You should read these instructions carefully. If you do not follow the instructions, your application may be rejected and returned, together with the accompanying cheque(s) or banker's cashier order(s), by ordinary post to you (or the First-named applicant in the case of joint applicants) at your own risk at the address stated in the Application Form.

If your application is made through a duly authorised attorney, the Company, the Sponsor and the Hong Kong Underwriters may accept it at their discretion, subject to any conditions they think fit, including evidence of the authority of your attorney.

In order for the **YELLOW** Application Form to be valid:

(a) if the application is made through a designated CCASS Participant (other than a CCASS Investor Participant):

- the designated CCASS Participant or its authorised signatories must sign in the appropriate box; and

- the designated CCASS Participant must endorse the form with its company chop (bearing its company name) and insert its participant I.D. in the appropriate box;

(b) if the application is made by an individual CCASS Investor Participant:

- the Application Form must contain the CCASS Investor Participant's full name and Hong Kong identity card number; and

- the CCASS Investor Participant must insert its participant I.D. and sign in the appropriate box in the Application Form;

(c) if the application is made by joint individual CCASS Investor Participants:

- the Application Form must contain all joint CCASS Investor Participants' full names and Hong Kong identity card numbers of all joint CCASS Investor Participants; and

- the participant I.D. must be inserted and the authorised signatory(ies) of the CCASS Investor Participant's stock account must sign in the appropriate box in the Application Form;

(d) if the application is made by a corporate CCASS Investor Participant:

- the Application Form must contain the CCASS Investor Participant's company name and Hong Kong business registration number; and

- the participant I.D. and company chop (bearing its company name) endorsed by its authorised signatories must be inserted in the appropriate box in the Application Form.

Signature(s), number of signatories and form of chop, where appropriate, in each **YELLOW** Application Form, should match with the records kept by HKSCC. Incorrect or incomplete details of CCASS Participant or the omission or inadequacy of authorised signatory(ies) (if applicable), CCASS Participant I.D. or other similar matters may render the application invalid.

5. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC

General

CCASS Participants may give **electronic application instructions** to HKSCC to apply for the Hong Kong Offer Shares and to arrange payment of the monies due on application and payment of refunds. This will be in accordance with their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give electronic application instructions through the CCASS Phone System by calling +852 2979 7888 or through the CCASS Internet System (http://ip.ccass.com) (using the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

Hong Kong Securities Clearing Company Limited

Customer Service Centre
2nd Floor,
Vicwood Plaza
199 Des Voeux Road Central
Hong Kong

and complete an input request form.

Prospectuses are available for collection from the above address.

If you are not a CCASS Investor Participant, you may instruct your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Hong Kong Offer Shares on your behalf.

You are deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application, whether submitted by you or through your broker or custodian, to the Company and its registrars.

Application for Hong Kong Offer Shares by HKSCC Nominees on your behalf

Where a **WHITE** Application Form is signed by HKSCC Nominees on behalf of persons who have given **electronic application instructions** to apply for the Hong Kong Offer Shares:

(i) HKSCC Nominees is only acting as a nominee for those persons and shall not be liable for any breach of the terms and conditions of the **white** Application Form or this prospectus;

(ii) HKSCC Nominees does the following things on behalf of each such person:

- agrees that the Hong Kong Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the stock account of the CCASS Participant who has inputted **electronic application instructions** on that person's behalf or that person's CCASS Investor Participant stock account;

- undertakes and agrees to accept the Hong Kong Offer Shares in respect of which that person has given **electronic application instructions** or any lesser number;

- undertakes and confirms that that person has not applied for or taken up any Share under the International Placing nor otherwise participated in the International Placing;

- (if the **electronic application instructions** are given for that person's own benefit) declares that only one set of **electronic application instructions** has been given for that person's benefit;

- (if that person is an agent for another person) declares that that person has only given one set of **electronic application instructions** for the benefit of that other person and that that person is duly authorised to give those instructions as that other person's agent;

- understands that the above declaration will be relied upon by the Company, the Directors and the Global Co-ordinator in deciding whether or not to make any allotment of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by that person and that that person may be prosecuted if he makes a false declaration;

- authorises the Company to place the name of HKSCC Nominees on the register of members of the Company as the holder of the Hong Kong Offer Shares allotted in respect of that person's **electronic application instructions** and to send share certificate(s) and/or refund monies in accordance with the arrangements separately agreed between the Company and HKSCC;

- confirms that that person has read the terms and conditions and application procedures set out in this prospectus and agrees to be bound by them;

- confirms that that person has only relied on the information and representations in this prospectus in giving that person's **electronic application instructions** or instructing that person's broker or custodian to give electronic application instructions on that person's behalf;

- agrees that the Company and the Directors are liable only for the information and representations contained in this prospectus and any supplement thereto;

- agrees to disclose that person's personal data to the Company and its registrar, receiving bankers, advisers and agents and any information which they may require about that person;

- agrees (without prejudice to any other rights which that person may have) that once the application of HKSCC Nominees is accepted, the application cannot be rescinded for innocent misrepresentation;

- agrees that any application made by HKSCC Nominees on behalf of that person pursuant to **electronic application instructions** given by that person is irrevocable before Friday, 20 July 2007, such agreement to take effect as a collateral contract with the Company and to become binding when that person gives the instructions and such collateral contract to be in consideration of the Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Friday, 20 July 2007 except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before Friday, 20 July 2007 if a person responsible for this prospectus under Section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

- agrees that once the application of HKSCC Nominees is accepted, neither that application nor that person's **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by the announcement of the results of the Hong Kong Public Offering published by the Company;

- agrees to the arrangements, undertakings and warranties specified in the participant agreement between that person and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to Hong Kong Offer Shares;

- agrees with the Company (for the Company itself and for the benefit of each Shareholder of the Company) that Shares in the Company are freely transferable by the holders thereof; and

- agrees that that person's application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong.

Effect of giving electronic application instructions to HKSCC

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to the Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or the Offer Price is less than the initial price per Share paid on application, refund of the application monies, in each case including brokerage, SFC transaction levy and Stock Exchange trading fee, by crediting your designated bank account;

- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things which it is stated to do on your behalf in the **WHITE** Application Form.

Multiple applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Hong Kong Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Hong Kong Offer Shares in respect of which you have given such instructions and/or in respect of which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Hong Kong Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

Minimum subscription amount and permitted multiples

You may give or cause your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give **electronic application instructions** in respect of a minimum of 1,000 Hong Kong Offer Shares. Such instructions in respect of more than 1,000 Hong Kong Offer Shares must be in one of the multiples set out in the table in the Application Forms. No application for any other number of Hong Kong Offer Shares will be considered and any such application is liable to be rejected.

Time for inputting electronic application instructions

CCASS Broker/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

Wednesday, 20 June 2007 — 9:00 a.m. to 8:30 p.m.(1)
Thursday, 21 June 2007 — 8:00 a.m. to 8:30 p.m.(1)
Friday, 22 June 2007 — 8:00 a.m. to 8:30 p.m.(1)
Saturday, 23 June 2007 — 8:00 a.m. to 1:00 p.m.(1)
Monday, 25 June 2007 — 8:00 a.m.(1) to 12:00 noon

(1) These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Broker/Custodian Participants.

CCASS Investor Participants can input electronic application instructions from 9:00 a.m. on 20 June 2007 until 12:00 noon on Monday, 25 June 2007 (24 hours daily, except the last application day).

Effect of bad weather on the last application day

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Monday, 25 June 2007, the last application day. If:

- a tropical cyclone warning signal number 8 or above; or

- a "black" rainstorm warning signal is in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 25 June 2007, the last application day will be postponed to the next business day which does not have either of those warning signals in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on such day. Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

Allocation of Hong Kong Offer Shares

For the purposes of allocating Hong Kong Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit each such instructions is given will be treated as an applicant.

Section 40 of the Hong Kong Companies Ordinance

For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Hong Kong Companies Ordinance.

Personal data

The section of the Application Form headed "Personal Data" applies to any personal data held by the Company and the registrar about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

Warning

The subscription of the Hong Kong Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. The Company, the Directors, the Global Co-ordinator and the Underwriters take no responsibility for the application and provide no assurance that any CCASS Participant will be allotted any Hong Kong Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions** to HKSCC through the CCASS Phone System or the CCASS Internet system, CCASS Investor Participants are advised not to wait until the last minute to input their **electronic application instructions** to the systems. In the event that CCASS Investor Participants have problems connecting to the CCASS Phone System or the CCASS Internet System to submit their **electronic application instructions**, they should either: (i) submit a **WHITE** or **YELLOW** Application Form; or (ii) go to HKSCC's Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Monday, 25 June 2007 or such later data stated in the sub-paragraph headed "Effect of bad weather on the last application day" above.

6. HOW MANY APPLICATIONS YOU MAY MAKE

You may make more than one application for the Offer Shares only if:

You are a **nominee**, in which case you may lodge more than one application in your own name on behalf of different owners. In the box of the Application Form marked "For nominees" you must include:

- an account number, or
- some other identification code

for **each** beneficial owner. If you do not include this information, the application will be treated as being for your benefit.

Otherwise, multiple applications are not allowed.

Multiple applications or suspected multiple applications will be rejected. Save as referred to above, **all** of your applications (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**) will be rejected as multiple applications if you, or you and your joint applicants or any of your joint applicants together:

- make more than one application (whether individually or jointly with others) on a **WHITE** and/or **YELLOW** Application Form;
- apply (whether individually or jointly with others) on one **WHITE** or **YELLOW** Application Form for more than the total number of Hong Kong Offer Shares initially available in either pool A or pool B, as further described in the section headed "Structure of the Global Offering — The Hong Kong Public Offering"; or
- have indicated an interest for, or have been or will be allocated International Placing Shares under the International Placing.

All of your applications will also be rejected as multiple applications if more than one application is made for your **benefit**. If an application is made by an unlisted company and

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company

then the application will be treated as being for your own benefit.

Unlisted company means a company with no equity securities listed on the Stock Exchange.

Statutory control in relation to a company means you:

- control the composition of the board of directors of that company; or

- control more than half of the voting power of that company; or
- hold more than half the issued share capital of that company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

7. HOW MUCH ARE THE HONG KONG OFFER SHARES

The maximum Offer Price is HK$7.08 per Offer Share. You must also pay brokerage of 1%, SFC transaction levy of 0.004% and Stock Exchange trading fee of 0.005%. This means that for every board lot of 1,000 Offer Shares you will pay HK$7,151.43. The Application Forms have tables showing the exact amount payable for certain multiples of the Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full when you apply for the Offer Shares. Your payment must be made by one cheque or one banker's cashier order payable to Bank of Communications (Nominee) Co. Ltd — China Transmission Public Offer and must comply with the terms set out in the Application Form.

If your application is successful, the brokerage is paid to participants of the Stock Exchange or the Stock Exchange (as the case may be), the transaction levy is paid to the SFC and the trading fee is paid to the Stock Exchange.

If the Offer Price as finally determined is less than HK$7.08 per Offer Share, appropriate refund payments (including the brokerage, SFC transaction levy and Stock Exchange trading fee attributable to the surplus application monies) will be made to applicants, without interest. Details of the procedures for refund are contained below in the paragraph headed "13. Publication of results, despatch/collection of share certificates and refund cheques".

8. MEMBERS OF THE PUBLIC — TIME FOR APPLYING FOR HONG KONG OFFER SHARES

Completed **WHITE** or **YELLOW** Application Forms, with payment attached, must be lodged by 12:00 noon on Monday, 25 June 2007, or, if the application lists are not open on that day, then by 12:00 noon on the next business day the lists are open.

Your completed Application Forms, with payment attached, should be deposited in the special collection boxes provided at any of the branches of Bank of Communications Co., Ltd., Hong Kong Branch or any of the branches of Bank of China (Hong Kong) Limited listed in the section headed "Where to collect the Application Forms" above at the following times:

Wednesday, 20 June 2007 — 9:00 a.m. to 5:00 p.m.
Thursday, 21 June 2007 — 9:00 a.m. to 5:00 p.m.
Friday, 22 June 2007 — 9:00 a.m. to 5:00 p.m.
Saturday, 23 June 2007 — 9:00 a.m. to 1:00 p.m.
Monday, 25 June 2007 — 9:00 a.m. to 12:00 noon

The application lists will be open from 11:45 a.m. to 12:00 noon on Monday, 25 June 2007, except as provided in the paragraph headed "Effect of Bad Weather on the Opening of the Application Lists" below.

9. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a "black" rainstorm warning

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Monday, 25 June 2007. Instead they will open between 11:45 a.m. and 12:00 noon on the next business day which does not have either of those warnings in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon.

Business day means a day that is not a Saturday, Sunday or public holiday in Hong Kong.

10. COMMENCEMENT OF DEALINGS IN THE SHARES ON THE STOCK EXCHANGE

Dealings in the Shares on the Stock Exchange are expected to commence on Wednesday, 4 July 2007.

The Shares will be traded on the Stock Exchange in board lots of 1,000 each.

11. SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and the Company complies with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date HKSCC chooses. Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second business day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

All necessary arrangements have been made for the Shares to be admitted into CCASS.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangements as such arrangements will affect their rights and interests.

12. DEPOSIT OF SHARE CERTIFICATES INTO CCASS

If you apply for Hong Kong Offer Shares using a **YELLOW** Application Form and your application is wholly or partially successfully, your Share certificates will be issued in the name of HKSCC Nominees Limited and deposited into CCASS for credit to your investor participant stock account or the stock account of your designated CCASS participant as instructed by you in your Application Form at the close of business on Tuesday, 3 July 2007, or under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees Limited.

If you are applying through a designated CCASS participant (other than a CCASS investor participant):

- for Hong Kong Offer Shares credited to the stock account of your designated CCASS participant (other than a CCASS investor participant), you can check the number of Hong Kong Offer Shares allotted to you with that CCASS participant.

If you are applying as a CCASS investor participant:

- the Company expects to publish the results of CCASS investor participants' applications, together with the result of the Hong Kong Public Offering, in the newspaper on Tuesday, 3 July 2007. You should check the announcement published by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 3 July 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees Limited. Immediately after the credit of the Hong Kong Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an Activity Statement showing the number of Hong Kong Offer Shares credited to your stock account.

13. PUBLICATION OF RESULTS, DESPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND CHEQUES

We expect to announce the basis of allocation, the results of applications and the Hong Kong identity card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants under the Hong Kong Public Offering on Tuesday, 3 July 2007 in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese). The allotment results as published in the newspapers will also be posted on the Company's website (www.chste.com) on Tuesday, 3 July 2007.

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum price per Share (excluding brokerage, Stock Exchange trading fee and SFC transaction levy thereon) paid on application, or if the conditions of the Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions" or if any application is revoked or any allocation pursuant thereto has become void, the application monies, or the appropriate portion thereof, together with the related brokerage, Stock Exchange trading fee and SFC transaction levy, will be refunded, without interest. It is intended that special efforts will be made to avoid any undue delay in refunding application monies where appropriate.

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application but, subject as mentioned below, in due course there will be sent to you by ordinary post, at your own risk to the address specified on the Application Form:

(a) for applications on **WHITE** Application Forms: (i) Share certificate(s) for all the Hong Kong Offer Shares applied for, if the application is wholly successful; or (ii) Share certificate(s) for the number of Hong Kong Offer Shares successfully applied for if, the application is partially successful (except for wholly successful and partially successful applicants on **YELLOW** Application Forms whose Share certificates will be deposited into CCASS as described above); and/or

(b) for applicants on **WHITE** and **YELLOW** Application Forms, a refund cheque or refund cheques crossed "Account Payee Only" in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) the surplus application monies for the Hong Kong Offer Shares unsuccessfully applied for, if the application is partially unsuccessful; (ii) all the application monies, if the application is wholly unsuccessful; and/or (iii) the difference between the Offer Price and the maximum price per Share paid on application in the event that the Offer Price is less than the maximum price per Share paid on application, in each case including related brokerage at the rate of 1%, a Stock Exchange trading fee of 0.005% and a SFC transaction levy of 0.004% but without interest.

Share certificates will only become valid certificates of title at 8:00 a.m. on Wednesday, 4 July 2007 provided that the Hong Kong Public Offering has become unconditional in all respects and the right of termination described in the section entitled "Underwriting — Underwriting Arrangements and Expenses — Hong Kong Public Offering — Grounds for Termination" has not been exercised.

Subject as mentioned below, refund cheques for surplus application monies (if any) in respect of wholly and partially unsuccessful applications and Share certificates for successful applicants under **WHITE** Application Forms are expected to be posted on Tuesday, 3 July 2007. The right is reserved to retain any Share certificates and any surplus application monies pending clearance of cheque(s) or banker's cashier order(s).

If you are applying for 1,000,000 or more Hong Kong Offer Shares on a **WHITE** or **YELLOW** Application Form and have indicated your intention on your Application Form to collect your refund cheque(s) (where applicable) and/or (for applicants using **WHITE** Application Forms) Share certificate(s) (where applicable) from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, and have provided all information required by your Application Form, you may collect (where applicable) your refund cheque(s) and (where applicable) share certificate(s) from Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong from 9:00 a.m. to 1:00 p.m. on Tuesday, 3 July 2007 or any other date notified by the Company in the newspapers as the date of despatch of Share certificates/refund cheques. If you are an individual who opts for personal collection, you must not authorise any other person to make collection on your behalf. If you are a corporate applicant which opts for personal collection, you must attend by your authorised representative bearing a letter of authorisation from your corporation stamped with your corporation's chop. Both individuals and authorised representatives (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Company's branch share registrar. If you do not collect your refund cheque(s) and Share certificate(s), they will be despatched promptly to you by ordinary post to the address as specified in your Application Form at your own risk.

1. GENERAL

(a) If you apply for the Hong Kong Offer Shares in the Hong Kong Public Offering, you will be agreeing with our Company and the Global Co-ordinator (on behalf of the Hong Kong Underwriters) as set out below.

(b) If you electronically instruct HKSCC to cause HKSCC Nominees to apply for the Hong Kong Offer Shares on your behalf, you will have authorised HKSCC Nominees to apply on the terms and conditions set out below, as supplemented and amended by the terms and conditions applicable to the relevant application method.

(c) In this section, references to "you", "applicants", "joint applicants" and other like references shall, if the context so permits, include references to both nominees and principals on whose behalf HKSCC Nominees are applying for the Hong Kong Offer Shares; and references to the making of an application shall, if the context so permits, include references to making applications electronically by giving instructions to HKSCC.

(d) Applicants should read this prospectus carefully, including other terms and conditions of the Hong Kong Public Offering, the paragraph headed "The Hong Kong Public Offering" in the section headed "Structure of the Global Offering", and in the section headed "How to Apply for the Hong Kong Offer Shares" and the terms and conditions set out in the relevant Application Form or imposed by HKSCC (as the case may be) prior to making an application.

2. OFFER TO PURCHASE THE HONG KONG OFFER SHARES

(a) You offer to purchase from our Company at the Offer Price the number of the Hong Kong Offer Shares indicated in your Application Form (or any smaller number in respect of which your application is accepted) on the terms and conditions set out in this prospectus and the relevant Application Form.

(b) For applicants using Application Forms, a refund cheque in respect of the surplus application monies (if any) representing the Hong Kong Offer Shares applied for but not allocated to you and representing the difference (if any) between the final Offer Price and the maximum Offer Price (including brokerage fee, the SFC transaction levy and the Stock Exchange trading fee attributable thereto), is expected to be sent to you at your own risk to the address stated on your Application Form.

Details of the procedure for refunds relating to each of the Hong Kong Public Offering methods are contained below in the paragraphs headed "If your application for the Hong Kong Offer Shares is successful (in whole or in part)" and "Refund of your money — additional information" in this section.

(c) Any application may be rejected in whole or in part.

(d) Applicants under the Hong Kong Public Offering should note that in no circumstances (save for those provided under section 40 of the Hong Kong Companies Ordinance) can applications be withdrawn once submitted. For the avoidance of doubt, the Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives, or causes to give, **electronic application instructions** to HKSCC via CCASS is a person who may be entitled to compensation under section 40 of the Hong Kong Companies Ordinance.

3. ACCEPTANCE OF YOUR OFFER

(a) The Hong Kong Offer Shares will be allocated after the application lists close. Our Company expects to announce the final number of Hong Kong Offer Shares, the level of applications under the Hong Kong Public Offering and the basis of allocations of the Hong Kong Offer Shares in the South China Morning Post (in English) and the Hong Kong Economic Times (in Chinese) on Tuesday, 3 July 2007.

(b) The results of allocations of the Hong Kong Offer Shares under the Hong Kong Public Offering, including the Hong Kong Identity Card numbers, passport numbers or Hong Kong business registration numbers (where applicable) of successful applicants and the number of Hong Kong Offer Shares successfully applied for, will be made available on Tuesday, 3 July 2007 in the manner described in "How to Apply for Hong Kong Offer Shares — 13. Publication of results, despatch/collection of share certificates and refund cheques".

(c) Our Company may accept your offer to purchase (if your application is received, valid, processed and not rejected) by announcing the basis of allocations and/or making available the results of allocations publicly.

(d) If our Company accepts your offer to purchase (in whole or in part), there will be a binding contract under which you will be required to purchase the Hong Kong Offer Shares in respect of which your offer has been accepted if the conditions of the Global Offering are satisfied or the Global Offering is not otherwise terminated. Further details are contained in the section headed "Structure of the Global Offering".

(e) You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

4. EFFECT OF MAKING ANY APPLICATION

(a) By making any application, you (and if you are joint applicants, each of you jointly and severally) for yourself or as agent or nominee and on behalf of each person for whom you act as agent or nominee:

- **instruct** and **authorise** our Company, the Global Co-ordinator and the Underwriters (or their respective agents or nominees), each acting as an agent of our Company, to execute any transfer forms, contract notes or other documents on your behalf and to do on your behalf all other things necessary to register any Hong Kong Offer Shares allocated to you in your name(s) or HKSCC Nominees, as the case may be, as required by the Articles and otherwise to give effect to the arrangements described in this prospectus and the relevant Application Form;

- **undertake to sign all documents and to do all things necessary to enable you or HKSCC Nominees, as the case may be, to be registered as the holder of the Hong Kong Offer Shares allocated to you, and as required by the Memorandum of Association and the Articles;**

- **represent, warrant and undertake that you understand that the Hong Kong Offer Shares have not been and will not be registered under the U.S. Securities Act and you are outside the United States when completing the Application Form (as defined in Regulation S) and are not a U.S. person described in paragraph (k)(1) of Rule 902 of Regulation S under the U.S. Securities Act;**

- **represent and warrant that you are outside the United States and will acquire the Hong Kong Offer Shares in an offshore transaction (within the meaning of Regulation S);**

- **confirm** that you have received a copy of this prospectus and have only relied on the information and representations contained in this prospectus in making your application, and not on any other information or representations concerning our Company and you agree that neither our Company, the Global Co-ordinator and the Underwriters nor any of their respective directors, officers, employees, partners, agents, advisers or any other parties involved in the Global Offering is or will be liable for any information or representations not contained in this prospectus;

- **agree (without prejudice to any other rights which you may have) that once your application has been accepted, you cannot revoke or rescind it because of an innocent misrepresentation;**

- **(if the application is made by an agent on your behalf) warrant that you have validly and irrevocably conferred on your agent all necessary power and authority to make the application;**

- **(if the application is made for your own benefit) warrant that the application is the only application which has been or will be made for your benefit on a WHITE or YELLOW Application Form or by giving electronic application instructions to HKSCC;**

- (**if** you are an agent for another person) **warrant** that reasonable enquiries have been made of that other person that the application is the only application which will be made for the benefit of that other person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC, and that you are duly authorised to sign the Application Form or to give electronic application instruction as that other person's agent;

- **agree** that our Company, the Global Co-ordinator, the Hong Kong Underwriters and their respective directors and any other parties involved in the Hong Kong Public Offering are liable only for the information and representations contained in this prospectus;

- **agree** to disclose to our Company, its registrar, receiving bankers, the Global Co-ordinator, the Underwriters and their respective advisers and agents any personal data and any information which they require about you or the person(s) for whose benefit you have made this application;

- **agree** that once your application is accepted, your application will be evidenced by the results of the Hong Kong Public Offering made available by our Company;

- **undertake** and **confirm** that you (if the application is made for your benefit) or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest in or received or been placed or allocated (including conditionally and/or provisionally) and will not apply for or take up or indicate any interest in any International Placing Shares in the International Placing, nor otherwise participate in the International Placing;

- **warrant** the truth and accuracy of the information contained in your application;

- **agree** to disclose to our Company, the Global Co-ordinator and their respective agents any information about you or the person(s) for whose benefit you have made the application which they require;

- **represent**, **warrant** and **undertake** that the allotment of or application for the Hong Kong Offer Shares to you or by you or for whose benefit the application is made would not require the Company to comply with any requirements under any law or regulation (whether or not having the force of law) of any territory outside Hong Kong;

- **agree** that your application, any acceptance of it and the resulting contract will be governed by and construed in accordance with the laws of Hong Kong;

- **undertake** and **agree** to accept the Hong Kong Offer Shares applied for, or any lesser number allocated to you under the application;

- **authorise** our Company to place your name(s) or the name of HKSCC Nominees, as the case may be, on the register of members of our Company as the holder(s) of any Hong Kong Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) (where applicable) and/or any refund cheque (where applicable) to you or (in case of joint applicants) the first-named applicant in the Application Form by ordinary post at your own risk to the address stated on your Application Form (except that if you have applied for 1,000,000 Hong Kong Offer Shares or more and have indicated in your Application Form, you can collect your share certificate(s) and/or refund cheque (where applicable) in person between 9:00 a.m. and 1:00 p.m. on Tuesday, 3 July 2007 (Hong Kong time) from Computershare Hong Kong Investor Services Limited;

- **understand** that these declarations and representations will be relied upon by our Company and the Global Co-ordinator in deciding whether or not to allocate any Hong Kong Offer Shares in response to your application and that you may be prosecuted for false declaration;

- if the laws of any place outside Hong Kong are applicable to your application, you **agree** and **warrant** that you have complied with all such laws and none of our Company, the Global Co-ordinator, the Underwriters and the other parties involved in the Global Offering nor any of their respective officers or advisers will infringe any laws outside Hong Kong as a result of the acceptance of your offer to purchase, or any actions arising from your rights and obligations under the terms and conditions contained in this prospectus;

- **agree** with the Company and each Shareholder (and so that our Company, will be deemed by its acceptance in whole or in part of the application to have agreed, for itself and on behalf of each shareholder of our Company) to observe and comply with the Companies Law, the Companies Ordinance, the Memorandum of Association and the Articles;

- **agree** with our Company, each Shareholder, Director, manager and officer of the Company, and our Company acting for itself and for each director, manager and officer of the Company agrees with each Shareholder, to refer all differences and claims arising from the Articles or any rights or obligations conferred or imposed by the Companies Law or other relevant laws and administrative regulations concerning the affairs of our Company to arbitration in accordance with the Articles, and any reference to arbitration shall be deemed to authorise the arbitration tribunal to conduct hearings in open session and to publish its award. Such arbitration shall be final and conclusive;

- **agree** that the processing of your application, including the despatch of refund cheque(s) (if any), may be done by any of the Company's receiving bankers and is not restricted to the bank at which your Application Form was lodged;

- **agree** with our Company and each Shareholder that Shares are freely transferable by the holders thereof;

- **authorise** our Company to enter into a contract on behalf of you with each of the Directors and other officers of our Company whereby each such Director and officer undertakes to observe and comply with his or her obligations to Shareholders stipulated in the Memorandum of Articles and the Articles; and

- **confirm** that you are aware of the restrictions on offering of the Hong Kong Offer Shares described in this prospectus.

(b) If you apply for the Hong Kong Offer Shares using a **YELLOW** Application Form, in addition to the confirmations and agreements referred to in (a) above you **agree** that

- all the Hong Kong Offer Shares to be allocated to you shall be issued in the name of HKSCC Nominees and deposited directly into CCASS operated by HKSCC for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant, in accordance with your election on the Application Form;

- each of HKSCC and HKSCC Nominees reserves the right at this absolute discretion (1) **not to accept** any or part of the Hong Kong Offer Shares allotted to you in the name of HKSCC Nominees or **not to accept** such allotted Hong Kong Offer Shares for deposit into CCASS; (2) to cause such allotted Hong Kong Offer Shares to be **withdrawn** from CCASS and transferred into your name at your own risk and costs; and (3) to cause such **allotted Hong Kong Offer Shares to be issued in your name** (or, if you are a joint applicant, to the first-named applicant) and in such a case, to **post the share certificates** for such allotted Hong Kong Offer Shares at your own risk to the address on your Application Form by ordinary post **or to make available the same for your collection**;

- each of HKSCC and HKSCC Nominees may adjust the number of allotted Hong Kong Offer Shares issued in the name of HKSCC Nominees;

- neither HKSCC nor HKSCC Nominees shall have any liability for the information and representations not so contained in this prospectus and the Application Forms;

- neither HKSCC nor HKSCC Nominees shall be liable to you in any way.

(c) In addition, by giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Broker Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and if you are joint applicants, each of you jointly and severally) are deemed to do the following additional things and neither HKSCC nor HKSCC Nominees will be liable to the Company nor any other person in respect of such things:

- **instruct** and authorise HKSCC to cause HKSCC Nominees (acting as nominee for the CCASS Participants) to apply for the Hong Kong Offer Shares on your behalf;

- **instruct** and authorise HKSCC to arrange payment of the maximum Offer Price, brokerage fee, the SFC transaction levy and the Stock Exchange trading fee by debiting your designated bank account and, in the case of wholly or partly unsuccessful applications and/or if the final Offer Price is less than the maximum Offer Price of HK$7.08 per Hong Kong Offer Share, refund the appropriate portion of the application money by crediting your designated bank account;

- (in addition to the confirmations and agreements set out in paragraph (a) above) **instruct** and **authorise** HKSCC to cause HKSCC Nominees to do on your behalf the following:

  — **agree** that the Hong Kong Offer Shares to be allocated shall be registered in the name of HKSCC Nominees and deposited directly into CCASS for credit to your CCASS Investor Participant stock account or the stock account of the CCASS Participant who has inputted **electronic application instructions** on your behalf;

  — **undertake** and **agree** to accept the Hong Kong Offer Shares in respect of which you have given **electronic application instructions** or any lesser number;

  — (if the **electronic application instructions** are given for your own benefit) **declare** that only one set of **electronic application instructions** has been given for your benefit;

— (if you are an agent for another person) **declare** that you have given only one set of **electronic application instructions** for the benefit of that other person, and that you are duly authorised to give those instructions as that other person's agent;

— **understand** that the above declaration will be relied upon by our Company and the Global Co-ordinator in deciding whether or not to make any allocation of the Hong Kong Offer Shares in respect of the **electronic application instructions** given by you and that you may be prosecuted if you make a false declaration;

— **authorise** our Company to place the name of HKSCC Nominees on the register of members of our Company as the holder of the Hong Kong Offer Shares allocated in respect of your **electronic application instructions** and to send share certificates and/or refund in accordance with arrangements separately agreed between the Company and HKSCC;

— **confirm** that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

— **confirm** that you have only relied on the information and representations in this prospectus in giving your electronic application instructions or instructing your CCASS Broker Participant or CCASS Custodian Participant to give **electronic application instructions** on your behalf;

— **agree** that our Company, the Global Co-ordinator and the Underwriters and any of their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Global Offering are liable only for the information and representations contained in this prospectus;

— **agree** (without prejudice to any other rights which you may have) that once the application of HKSCC Nominees has been accepted, the application cannot be rescinded for innocent misrepresentation;

— **agree** to disclose your personal data to Morgan Stanley, our Company, the Hong Kong branch share registrar, the receiving banker(s), their respective agents and advisers together with any information about you which they require;

— **agree** that any application made by HKSCC Nominees on your behalf pursuant to **electronic application instructions** given by you is irrevocable before Friday, 20 July 2007, such agreement to take effect as a collateral contract with the Company and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Friday, 20 July 2007, except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus;

— **agree** that once the application of HKSCC Nominees is accepted, neither that application nor your **electronic application instructions** can be revoked and that acceptance of that application will be evidenced by the results of the Hong Kong Public Global Offering made available by the Company; and

— **agree** to the arrangements, undertakings and warranties specified in the participant agreement between you and HKSCC and read with the General Rules of CCASS and the CCASS Operational Procedures, in respect of the giving of **electronic application instructions** relating to the Hong Kong Offer Shares.

6. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOCATED HONG KONG OFFER SHARES

You should note the following situations in which Hong Kong Offer Shares will not be allocated to you or your application is liable to be rejected:

(a) **If your application is revoked:**

By completing and submitting an Application Form or submitting electronic application instructions to HKSCC, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked before Friday, 20 July 2007. This agreement will take effect as a collateral contract with our Company, and will become binding when you lodge your Application Form or submit your electronic application instructions to HKSCC. This collateral contract will be in consideration of our Company agreeing that it will not offer any Hong Kong Offer Shares to any person before Friday, 20 July 2007 except by means of one of the procedures referred to in this prospectus. For this purpose, acceptance of applications which are not rejected will be constituted by announcement of the basis of allocation and/or making available the results of allocation publicly, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

However, your application or the application made by HKSCC Nominees on your behalf may only be revoked before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is not a business day) if a person responsible for this prospectus under section 40 of the Hong Kong Companies Ordinance gives a public notice under that section which excludes or limits the responsibility of that person for this prospectus.

If any supplement to this prospectus is issued, applicant(s) who have already submitted an application may or may not (depending on the information contained in the supplement) be notified that they can withdraw their applications. If application(s) have not been so notified, or if applicant(s) have been notified but have not withdrawn their applications in accordance with the procedure to be notified, all applications that have been submitted remain valid and may be accepted. Subject to the above, an application once made is irrevocable and applicants shall be deemed to have applied on the basis of this prospectus as supplemented.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

(b) **If the allocation of Hong Kong Offer Shares is void:**

Your allocation of Hong Kong Offer Shares will be void if the Listing Committee does not grant permission to list the Shares either:

- within three weeks from the closing of the applications lists; or
- within a longer period of up to six weeks if the Listing Committee notifies our Company of that longer period within three weeks of the closing of the application lists.

(c) **If you make applications under the Hong Kong Public Offering as well as the International Placing:**

By filling in any of the Application Forms or giving application instructions to HKSCC electronically, you agree not to apply for International Placing Shares under the International Placing. Reasonable steps will be taken to identify and reject applications under the Hong Kong Public Offering from investors who have received International Placing Shares in the International Placing, and to identify and reject indications of interest in the International Placing from investors who have received Hong Kong Offer Shares in the Hong Kong Public Offering.

(d) **If our Company, the Global Co-ordinator or their respective agents exercise their discretion:**

Our Company, the Global Co-ordinator or their respective agents have full discretion to reject or accept any application, or to accept only part of any application, without having to give any reasons for any rejection or acceptance.

(e) **If:**

- your application is a multiple or a suspected multiple application;
- your Application Form is not completed correctly;
- your payment is not made correctly or you pay by cheque or banker's cashier order and the cheque or banker's cashier order is dishonoured on its first presentation;
- you or the person for whose benefit you are applying have applied for and/or received or will receive International Placing Shares under the International Placing;

- if you apply for more than 50% of the Hong Kong Offer Shares initially being offered in the public for subscription;

- any of the Underwriting Agreements does not become unconditional or it is terminated in accordance with the terms thereof; or

(f) If you are giving **electronic application instructions** to HKSCC to apply for Hong Kong Offer Shares on your behalf, you will also not be allocated any Hong Kong Offer Shares if HKSCC Nominee's application is not accepted.

7. IF YOUR APPLICATION FOR THE HONG KONG OFFER SHARES IS SUCCESSFUL (IN WHOLE OR IN PART)

(a) **If you are applying using a WHITE Application Form and you elect to receive any share certificate(s) in your name:**

- Refund cheques for these applicants who apply for less than 1,000,000 Hong Kong Offer Shares are expected to be despatched on or before Tuesday, 3 July 2007 to the same address as that for Share certificate(s).

- Applicants who apply on **WHITE** Application Forms for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering and have indicated in their Application Forms that they wish to collect Share certificates and (where applicable) refund cheques in person from the Company's Hong Kong branch share registrar may collect Share certificates and (where applicable) refund cheques in person from the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Tuesday, 3 July 2007.

- Applicants being individuals who opt for personal collection cannot authorise any other person to make collection on their behalf. Corporate applicants who opt for personal collection must attend by their authorised representatives bearing letters of authorisation from the corporation stamped with the corporation's respective chops. Both individuals and authorised representative (if applicable) must produce, at the time of collection, evidence of identity acceptable to the Hong Kong branch share registrar.

- Uncollected Share certificates and (where applicable) refund cheques will be despatched by ordinary post at the applicants' own risk to the addresses specified in the relevant Application Forms.

(b) **If: (i) you are applying on a YELLOW Application Form; or (ii) you are giving electronic application instructions to HKSCC, and in each case you elect to have allocated Hong Kong Offer Shares deposited directly into CCASS:**

If your application is wholly or partly successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your CCASS Investor Participant stock account or the stock account of your designated CCASS Participant as instructed by you (on the Application Form or electronically, as the case may be), at the close of business on Tuesday, 3 July 2007, or, under certain contingent situations, on any other date as shall be determined by HKSCC or HKSCC Nominees.

- ***If you are applying through a designated CCASS Participant (other than a CCASS Investor Participant) on a YELLOW Application Form:***

  For Hong Kong Offer Shares credited to the stock account of your designated CCASS Participant (other than a CCASS Investor Participant), you can check the number of Hong Kong Offer Shares allocated to you with that CCASS Participant.

- ***If you are applying as a CCASS Investor Participant on a YELLOW Application Form:***

  The Company is expected to make available the results of the Hong Kong Public Offering, including the results of CCASS Investor Participants' applications, in the manner described in the paragraph headed "How to Apply for the Hong Kong Offer Shares — 13. Publication of results, despatch/collection of share certificates and refund cheques", on Tuesday, 3 July 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on 3 July 2007 or such other date as shall be determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Hong Kong Offer Shares to your stock account you can check your new account balance via the CCASS Phone System or CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time). HKSCC will also make available to you an activity statement showing the number of Hong Kong Offer Shares credited to your stock account.

- ***If you have given electronic application instructions to HKSCC:***

  The Company is expected to make available the application results of the Hong Kong Public Offering, including the results of CCASS Participants' applications (and in the case of CCASS Broker Participants and CCASS Custodian Participants, the Company shall include information relating to the beneficial owner), your Hong Kong identity card/passport/Hong Kong business registration number or other identification code (as appropriate) in the manner described in the section headed "How to Apply for the Hong Kong Offer Shares — 13. Publication of results, despatch/collection of share certificates and refund cheques", on Tuesday, 3 July 2007. You should check the results made available by the Company and report any discrepancies to HKSCC before 5:00 p.m. on Tuesday, 3 July 2007 or any other date HKSCC or HKSCC Nominees chooses.

- ***If you are instructing your CCASS Broker Participant or CCASS Custodian Participant to give electronic application instructions to HKSCC on your behalf:***

You can also check the number of Hong Kong Offer Shares allocated to you and the amount of refund (if any) payable to you with that CCASS Broker Participant or CCASS Custodian Participant.

- ***If you are applying as a CCASS Investor Participant by giving electronic instruction to HKSCC:***

You can also check the number of the Hong Kong Offer Shares allotted to you and the amount of refund (if any) payable to you via the CCASS Phone System and CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Tuesday, 3 July 2007. HKSCC will also make available to you an activity statement showing the number of the Hong Kong Offer Shares credited to your stock account and the amount of refund credited to your designated bank account (if any).

No receipt will be issued for application monies paid. The Company will not issue temporary documents of title.

8. REFUND OF YOUR MONEY — ADDITIONAL INFORMATION

(a) You will be entitled to a refund (any interest accrued on refund money prior to the date of despatch of refund cheques will be retained for the benefit of our Company) if:

- your application is not successful, in which case our Company will refund your application money together with the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee to you, without interest;

- your application is accepted only in part, in which case our Company will refund the appropriate portion of your application money, the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest;

- the Offer Price (as finally determined) is less than the price per Offer Share initially paid by the applicant on application, in which case our Company will refund the surplus application money together with the appropriate portion of the brokerage fee, the SFC transaction levy and the Stock Exchange trading fee, without interest; and

- the conditions of Global Offering are not fulfilled in accordance with the section headed "Structure of the Global Offering — Conditions".

(b) If you apply on **YELLOW** Application Form for 1,000,000 Hong Kong Offer Shares or more under the Hong Kong Public Offering, you may collect your refund cheque (if any) in person from the Hong Kong branch share registrar on Tuesday, 3 July 2007. The procedure for collection of refund cheques for **YELLOW** Application Form applicants is the same as that for **WHITE** Application Form applicants set out in sub-paragraph (a) of the paragraph headed "If your application for the Hong Kong Offer Shares is successful (in whole or in part)" in this section.

(c) If you are applying by giving electronic instructions to HKSCC to apply on your behalf, all refunds are expected to be credited to your designated bank account (if you are applying as a CCASS Investor Participant) or the designated bank account of your broker or custodian (if you are applying through a CCASS Broker/Custodian Participant) on Tuesday, 3 July 2007.

(d) All refunds by cheque will be crossed "Account Payee Only", and made out to you, or if you are a joint applicant, to the first-named applicant on your Application Form.

(e) Refund cheques are expected to be despatched on Tuesday, 3 July 2007. Our Company intends to make special efforts to avoid undue delays in refunding money.

9. PERSONAL DATA

The main provisions of the Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) (the "Ordinance") came into effect in Hong Kong on 20 December 1996. This Personal Information Collection Statement informs the applicant for and holder of the Hong Kong Offer Shares of the policies and practices of our Company and the Hong Kong branch share registrar in relation to personal data and the Ordinance.

(a) **Reasons for the collection of your personal data**

From time to time it is necessary for applicants for securities or registered holders of securities to supply their latest correct personal data to our Company and the Hong Kong branch share registrar when applying for securities or transferring securities into or out of their names or in procuring the services of the Hong Kong branch share registrar.

Failure to supply the requested data may result in your application for securities being rejected or in delay or inability of our Company or its Hong Kong branch share registrar to effect transfers or otherwise render their services. It may also prevent or delay registration or transfer of the Hong Kong Offer Shares which you have successfully applied for and/or the despatch of Share certificate(s), and/or refund cheque(s) to which you are entitled.

It is important that holders of securities inform our Company and the Hong Kong branch share registrar immediately of any inaccuracies in the personal data supplied.

(b) **Purposes**

The personal data of the applicants and the holders of securities may be used, held and/or stored (by whatever means) for the following purposes:

- processing of your application and verification of compliance with the terms and application procedures set out in the Application Forms and this prospectus and announcing results of allocations of the Hong Kong Offer Shares;
- enabling compliance with all applicable laws and regulations in Hong Kong and elsewhere;
- registering new issues or transfers into or out of the name of holders of securities including, where applicable, in the name of HKSCC Nominees;
- maintaining or updating the registers of holders of securities of our Company;
- conducting or assisting to conduct signature verifications, any other verification or exchange of information;
- establishing benefit entitlements of holders of securities of our Company, such as dividends, rights issues and bonus issues;
- distributing communications from our Company and its subsidiaries;
- compiling statistical information and shareholder profiles;
- making disclosures as required by any laws, rules or regulations;
- disclosing relevant information to facilitate claims on entitlements; and
- any other incidental or associated purposes relating to the above and/or to enable our Company and the Hong Kong branch share registrar to discharge their obligations to holders of securities and/or regulators and/or other purpose to which the holders of securities may from time to time agree.

(c) **Transfer of personal data**

Personal data held by our Company and the Hong Kong branch share registrar relating to the applicants and the holders of securities will be kept confidential but our Company and the Hong Kong branch share registrar, to the extent necessary for achieving the above purposes or any of them, make such enquiries as they consider necessary to confirm the accuracy of the personal data and in particular, they may disclose, obtain or provide (whether within or outside Hong Kong) the personal data of the applicants and the holders of securities to or from any and all of the following persons and entities:

- our Company or its appointed agents such as financial advisers and receiving bankers;
- HKSCC and HKSCC Nominees, who will use the personal data for the purposes of operating CCASS (in cases where the applicants have requested for the Hong Kong Offer Shares to be deposited into CCASS);
- any agents, contractors or third party service providers who offer administrative, telecommunications, computer, payment or other services to our Company and/or the Hong Kong branch share registrar in connection with the operation of their businesses;
- the Stock Exchange, the SFC and any other statutory, regulatory or governmental bodies; and
- any other persons or institutions with which the holders of securities have or propose to have dealings, such as their bankers, solicitors, accountants or stockbrokers.

By signing an Application Form or by giving electronic application instructions to HKSCC, you agree to all of the above.

(d) **Access and correction of personal data**

The Ordinance provides the applicants and the holders of securities with rights to ascertain whether our Company and/or the Hong Kong branch share registrar hold their personal data, to obtain a copy of that data, and to correct any data that is inaccurate. In accordance with the Ordinance, our Company and the Hong Kong branch share registrar have the right to charge a reasonable fee for the processing of any data access request. All requests for access to data or correction of data or for information regarding policies and practices or the kinds of data held should be addressed to our Company for the attention of the Company Secretary or (as the case may be) the Hong Kong branch share registrar for the attention of the Privacy Compliance Officer (for the purposes of the Ordinance).

Deloitte.
德勤

德勤・關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

20 June 2007

The Directors
China High Speed Transmission Equipment Group Co., Ltd.
Morgan Stanley Asia Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding Nanjing High Speed & Accurate Gear (Group) Co., Ltd. (formerly known as Nanjing High Speed & Accurate Gear Co., Ltd.) ("NGC") and its subsidiaries (hereinafter collectively referred to as the "NGC Group") for the period from 1 January 2004 to 25 February 2004 (the "Relevant Period") for inclusion in the prospectus of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") dated 20 June 2007 (the "Prospectus").

NGC was established as a joint stock limited company in the People's Republic of China (the "PRC") on 16 August 2001. It was converted into a limited liability company on 6 September 2005 and then a sino-foreign joint venture on 8 December 2005.

As at 25 February 2004, NGC has the following subsidiaries and associate:

Name	Place and date of establishment/ operation	Issued and fully paid registered capital	Attributable equity interest held by NGC		Principal activities
		RMB	Direct	Indirect	
Subsidiary					
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed") 南京高速齒輪製造有限公司	PRC 8 July 2003	61,000,000	50.164%	—	Manufacture and sales of general, high speed, wind power gear, gear box and fittings
Nanjing Ningkai Mechanical Engineer Co., Ltd. 南京寧凱機械有限責任公司	PRC 19 November 2002	35,000,000	83.37%	—	Engineering processing and manufacturing
Nanjing Ningjiang Gear Box Manufacturing Ltd. ("Ningjiang") 南京寧江齒輪箱製造有限公司	PRC 26 November 2003	5,000,000	51%	—	Sales of gear, gear box and fittings
Nanjing Ningtai Property Management Co., Ltd. 南京寧泰物業管理有限公司	PRC 25 August 2003	300,000	—	100%	Property management

Name	Place and date of establishment/ operation	Issued and fully paid registered capital	Attributable equity interest held by NGC		Principal activities
		RMB	Direct	Indirect	
Nanjing High Speed & Accurate Gear (Shenyang) Sales Co., Ltd. 南京高精齒輪(瀋陽)銷售有限公司	PRC 17 January 2004	5,000,000	51%	—	Sales of gear, gear box and fitting
Nanjing Ningjin Complete Set of Flying Share Equipment Co., Ltd. 南京寧津飛剪成套設備有限公司	PRC 24 October 2003	5,000,000	51%	—	Manufacture and sales of rolling mill, flying scissor, whole set of electronic equipment
Nanjing Ninghang Heavy Duty Gear Box Co., Ltd. 南京寧機重型齒輪箱有限公司	PRC 27 May 2002	1,000,000	51%	—	Sales of gear, gear box and fittings
Associate					
Nanjing Mechanical Economic Development Company Limited 南京機械經濟開發有限公司	PRC 14 October 1993	14,400,000	—	40%	Investment holding

Note: All above companies are domestic enterprises established in the PRC.

NGC and its subsidiaries have adopted 31 December as their financial year end date.

No audited financial statements of NGC and it subsidiaries were prepared in accordance with the relevant accounting rules and financial regulations applicable to companies established in the PRC for the Relevant Period.

For the purpose of this report, the directors of NGC have prepared the consolidated financial statements of the NGC Group for the Relevant Period, in accordance with International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standard Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB (the "Underlying Financial Statements"). We have undertaken our own independent audit of the Underlying Financial Statements in accordance with International Standards on Auditing.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants.

The Financial Information of the NGC Group for the Relevant Period set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 1A to the Financial Information. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of NGC who approve their issue. The directors of the Company are responsible for the contents of the Prospectus in which this report is included. It is our responsibilities to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1A of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the NGC Group as at 25 February 2004 and of the consolidated results and consolidated cash flows of the NGC Group for the period from 1 January 2004 to 25 February 2004.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2004 TO 25 FEBRUARY 2004

	Notes	RMB '000
Revenue	5	79,412
Cost of sales		(49,464)
Gross profit		29,948
Other income	6	1,428
Distribution costs		(5,327)
Administrative expenses		(13,678)
Finance costs	7	(2,613)
Profit before taxation		9,758
Taxation	8	(2,171)
Profit for the period	9	7,587
Attributable to:		
Equity holders of the parent		7,369
Minority interests		218
		7,587

CONSOLIDATED BALANCE SHEET
AS AT 25 FEBRUARY 2004

	Notes	RMB '000
NON-CURRENT ASSETS		
Property, plant and equipment	12	396,983
Prepaid lease payments - non-current portion	13	36,385
Interest in an associate	14	15,220
Available-for-sale investment	15	1,229
Deferred tax assets	23	2,629
		452,446
CURRENT ASSETS		
Inventories	16	211,951
Prepaid lease payments - current portion	13	752
Trade and other receivables	17	174,443
Amounts due from related parties	30	9,988
Pledged bank deposits	18	48,610
Bank balances and cash	19	85,166
		530,910
CURRENT LIABILITIES		
Trade and other payables	20	500,446
Amounts due to related parties	30	499
Dividend payable		36,141
Tax payable		3,716
Bank borrowings - due within one year	21	245,000
		785,802
NET CURRENT LIABILITIES		(254,892)
TOTAL ASSETS LESS CURRENT LIABILITIES		197,554
NON-CURRENT LIABILITY		
Bank borrowings - due after one year	21	44,000
		153,554
CAPITAL AND RESERVES		
Share capital	22	60,000
Reserves		49,085
Equity attributable to equity holders of the parent		109,085
Minority interests		44,469
		153,554

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE PERIOD FROM 1 JANUARY 2004 TO 25 FEBRUARY 2004

	Attributable to equity holders of the parent								
	Share capital	Share premium	Capital reserves	Statutory surplus reserve	Statutory welfare reserve	Retained profits	Total	Minority interests	Total
	RMB '000	RMB '000	RMB '000 (note 24)	RMB '000 (note 25)	RMB '000 (note 25)	RMB '000	RMB '000	RMB '000	RMB '000
At 1 January 2004	60,000	25,048	3,751	5,421	5,421	2,075	101,716	41,801	143,517
Capital contributions	—	—	—	—	—	—	—	2,450	2,450
Profit for the period and total recognised income	—	—	—	—	—	7,369	7,369	218	7,587
At 25 February 2004	60,000	25,048	3,751	5,421	5,421	9,444	109,085	44,469	153,554

CONSOLIDATED CASH FLOW STATEMENT
FOR THE PERIOD FROM 1 JANUARY 2004 TO 25 FEBRUARY 2004

	RMB '000
OPERATING ACTIVITIES	
Profit before taxation	9,758
Adjustments for:	
Dividend income	(7)
Finance costs	2,613
Impairment loss on trade and other receivables	22
Reversal of impairment loss on trade and other receivables	(332)
Allowance for inventories	1,006
Depreciation of property, plant and equipment	7,250
Release of prepaid lease payments	125
Loss on disposal of property, plant and equipment	810
Interest income	(347)
Operating cash flows before movements in working capital	20,898
Increase in inventories	(39,957)
Increase in trade and other receivables	(21,840)
Increase in trade and other payables	39,103
Cash used in operations	(1,796)
Income taxes paid	(413)
NET CASH USED IN OPERATING ACTIVITIES	(2,209)
INVESTING ACTIVITIES	
Purchase of property, plant and equipment	(51,660)
Acquisition of an associate	(15,220)
Advances to related parties	(9,988)
Decrease in pledged bank deposits	29,794
Interest received	347
Dividends received	7
NET CASH USED IN INVESTING ACTIVITIES	(46,720)
FINANCING ACTIVITIES	
New bank borrowings raised	102,000
Capital contribution from minority shareholders	2,450
Advance from related parties	499
Repayment of bank borrowings	(20,000)
Interest paid	(2,613)
NET CASH FROM FINANCING ACTIVITIES	82,336
NET INCREASE IN CASH AND CASH EQUIVALENTS	33,407
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD	51,759
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD, representing bank balances and cash	85,166

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

The Financial Information has been prepared on a going concern basis. In the opinion of the directors of NGC, they are satisfied that with the existing resources and banking facilities available to the NGC Group, the NGC Group has sufficient working capital for its current requirements.

1A. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Financial Information incorporate the financial statements of NGC and its subsidiaries made up for the period from 1 January 2004 to 25 February 2004 to present the results and financial position of the NGC Group before the founder shareholders (as defined in note 1 of section A of Appendix IB) obtained control.

All intra-group transactions and balances between group enterprises are eliminated on consolidation.

The Financial Information is presented in Renminbi which is the same as the functional currency of NGC.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting Financial Information of the Relevant Period, the NGC Group has applied all the new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and interpretations (herein collectively referred to as "new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are either effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 or 1 January 2006.

At the date of the report, the IASB and IFRIC has issued the following new standards, amendments and interpretations that have issued but not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and financial position of the NGC Group.

IAS 1 (Amendment)	Capital disclosures[1]
IAS 23 (Amendment)	Borrowing Costs[2]
IFRS 7	Financial instruments: Disclosures[1]
IFRS 8	Operating segments[2]
IFRIC 7	Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies[3]
IFRIC 8	Scope of IFRS 2[4]
IFRIC 9	Reassessment of embedded derivatives[5]
IFRIC 10	Interim financial reporting and impairment[6]
IFRIC 11	IFRS 2: Group and treasury share transactions[7]
IFRIC 12	Service concession arrangements[8]

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

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

[3] Effective for annual periods beginning on or after 1 March 2006

[4] Effective for annual periods beginning on or after 1 May 2006

[5] Effective for annual periods beginning on or after 1 June 2006

[6] Effective for annual periods beginning on or after 1 November 2006

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which conform to IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below.

Basis of consolidation

The Financial Information 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.

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 NGC Group.

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

Minority interests in the net assets of consolidated subsidiaries are presented separately from the NGC 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 NGC Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

Investments in associates

An associate is an entity over which the NGC 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 Financial Information 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 NGC Group's share of net assets of the associate, less any identified impairment loss. When the NGC 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 NGC Group's net investment in the associate), the NGC 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 NGC 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 NGC Group, profits and losses are eliminated to the extent of the NGC Group's interest in the relevant associate.

Revenue recognition

Revenue is measured at the fair value of the consideration received and receivable and represents amount receivables for goods sold 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 NGC Group's rights to receive payment have been established.

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment loss.

Construction in progress is stated at cost, which comprises all direct costs incurred in relation to their construction, less accumulated impairment loss. The cost of construction in progress will not be depreciated until they are available for use and are transferred to a specific category of property, plant and equipment when the construction is completed.

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.

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 the profit or loss on a straight-line basis over their relevant lease terms.

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.

Impairment of assets

At each balance sheet date, the NGC Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less an estimated costs of completion and estimated costs necessary to make the sale.

Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at its 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 in profit or loss in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the period. 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 NGC Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information 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 (other than in a business combination) 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 realised based on tax rates that have been enacted by the balance sheet date. 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 whether 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.

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.

Financial assets

The NGC Group's financial assets are classified into one of the two categories, including 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. The accounting policies adopted in respect of each category of financial assets are set out below.

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, 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. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

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 or loss, loans and receivables or held-to-maturity investment. Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be realisably measured, are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

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 NGC Group after deducting all of its liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities

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

Equity instruments

Equity instruments issued by NGC 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 NGC 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.

For financial liabilities, they 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.

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".

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. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The NGC Group's major financial instruments include bank balances, trade and other receivables, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. Management of the NGC Group manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) *Fair value interest rate risk*

Interest bearing financial assets are mainly pledged bank deposits and bank balances and carry at fixed interest rates. However, they are all short term in nature that has not exposed the NGC Group to significant fair value interest rate risk. Interest bearing financial liabilities are mainly bank borrowings with fixed interest rates. Therefore, the NGC Group is exposed to significant fair value interest rate risk. The NGC Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging the interest rate risk should the need arise.

(ii) *Foreign currency risk*

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the NGC Group's financial results and its cash flows. The NGC Group carries out majority of its transactions in Renminbi, the functional currency of the relevant group entities and accordingly, the NGC Group is not exposed to any significant foreign currency risk.

Credit risk

The NGC Group's credit risk primarily relates to the NGC Group's trade receivables. In order to minimise the risk, management of the NGC Group has delegated a team responsible for closely monitoring overdue trade debts. The recoverable amount of each individual trade debt is reviewed at each balance sheet date and adequate impairment losses have been made for irrecoverable amounts. In this regard, the directors of NGC consider that credit risk associated with the NGC Group's trade receivables is significantly reduced.

The maximum exposure to credit risk in the event that the counterparties fail to perform their obligations as at 25 February 2004 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The credit risk on bank balances and pledged bank deposits are minimal because the counterparties are banks with high credit-ratings.

The NGC Group is exposed to concentration of credit risk in amount due from related parties as the balance with Nanjing High-Speed Gear Industrial Development Co., Ltd amounted to RMB7.9 million as at 25 February, 2004. However, this balance was settled in 2007. Other than above, the NGC Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

In the management of the liquidity risk, the NGC Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the NGC 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 directors of NGC are satisfied that with the existing resources and bank facilities available to the NGC Group, the NGC Group has sufficient working capital for its current requirement.

5. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the net amounts received and receivable for goods sold, net of sales taxes and return, for the period. An analysis of the Group's revenue is as follows:

	RMB '000
Sales of products	
- High-speed Series Gear Transmission Equipment	974
- Gear Transmission Equipment for Construction Materials	35,118
- General Purpose Gear Transmission Equipment	9,568
- Gear Transmission Equipment for Ball-rolling, Wire-rolling and Plate-rolling Mills	24,877
- Others	8,875
	79,412

The Group's operation is regarded as a single segment, being the production and sale of gear products.

The Group's turnover was wholly derived from the PRC and the Group's assets are wholly located in the PRC. Accordingly, no analysis of geographical segment is presented.

6. OTHER INCOME

	RMB '000
Sales of scrap materials	959
Interest income	347
Dividend income from available-for-sale investment	7
Others	115
	1,428

7. FINANCE COSTS

	RMB '000
Interests on bank borrowings wholly repayable within five years	2,613

8. TAXATION

	RMB '000
PRC enterprise income tax - Current year	2,292
Deferred tax (note 22)	(121)
	2,171

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

NGC is an advanced technology enterprise and located in Nanjing Economic Technology Industry Development Zone. Accordingly, the applicable income tax rate is 15%.

Nanjing High Speed and Ningjiang are also advanced technology enterprises and located in Nanjing Civil Science Park. The applicable income tax rate is 15%. Upon the approval of the relevant tax bureau, both companies were exempted from income tax for the period ended 25 February 2004.

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

The taxation for the Relevant Period can be reconciled to the profit before taxation as follows:

	RMB '000
Profit before taxation	9,758
Tax at income tax rate of 33%	3,220
Tax effect on concessionary rate of NGC and tax exemption of Nanjing High Speed and Ningjiang	(2,384)
Tax effect of expenses not deductible for tax purposes[1]	1,185
Tax effect of tax losses not recognised	150
Taxation for the period	2,171

(1) Tax effect of expenses not deductible mainly represents entertainment expense that exceeds the limit under PRC tax rule and allowance for inventory and trade and other receivables that are not deductible under PRC tax rule.

Details of deferred taxation for the Relevant Period are set out in note 23.

9. PROFIT FOR THE PERIOD

	RMB '000
Profit for the period has been arrived at after charging (crediting):	
Staff costs, including directors' emoluments	18,347
Less: staff cost included in research and development costs	(974)
Total staff costs	17,373
Allowance for inventories	1,006
Cost of inventory recognised as expense	48,458
Depreciation of property, plant and equipment	7,250
Impairment loss on trade and other receivables	22
Loss on disposal of property, plant and equipment	810
Release of prepaid lease payments	125
Research and development costs (included in administrative expenses)	2,170
Reversal of impairment loss on trade and other receivables	(332)
Interest income	(347)

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to directors for the Relevant Period are as follows:

	RMB '000
Directors	
— fee	—
— salaries and other allowances	513
— retirement benefit plan contributions	10
Total emoluments	523
Hu Yueming	86
Chen Yongdao	70
Li Cunzhang	70
Li Shengqiang	70
Lu Xun	70
Liu Jianguo	70
Liao Enrong	70
Zhang Jianshen (Resigned on 9 December 2005)	2
Zhang Jianhua (Resigned on 26 December 2005)	3
Shin Yujiang (Resigned on 22 May 2005)	3
Chao Sianyang (Resigned on 22 May 2005)	3
Zi Yaochun (Resigned on 22 May 2005)	3
Pan Chunqin (Resigned on 22 May 2005)	3
	523

Employees

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

During the Relevant Period, no emoluments were paid by the NGC Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the NGC Group or as compensation for loss of office. None of the directors waived any emoluments during the Relevant Period.

11. EARNINGS PER SHARE

Information of earnings per share is not presented as such information is not meaningful given the purpose of this report.

12. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Fixture and equipment	Transportation equipment	Construction in progress	Software	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
COST							
At 1 January 2004	55,586	175,268	12,437	18,797	120,177	3,633	385,898
Additions	—	1,039	226	144	73,691	—	75,100
Transfer	49,592	25,708	3,336	6,022	(84,658)	—	—
Disposals	(878)	(2)	—	—	—	—	(880)
At 25 February 2004	104,300	202,013	15,999	24,963	109,210	3,633	460,118
DEPRECIATION							
At 1 January 2004	3,970	40,663	4,330	5,437	—	1,556	55,956
Charge for the period	496	5,724	401	569	—	60	7,250
Eliminated on disposals	(70)	(1)	—	—	—	—	(71)
At 25 February 2004	4,396	46,386	4,731	6,006	—	1,616	63,135
CARRYING AMOUNTS							
At 25 February 2004	99,904	155,627	11,268	18,957	109,210	2,017	396,983

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%
Software	20%

13. PREPAID LEASE PAYMENTS

	RMB '000
Medium-term land use rights in the PRC	37,137
Analysed for reporting purposes as:	
Current assets	752
Non-current assets	36,385
	37,137

The amount represents the land use rights which is situated in the PRC with usage rights of 50 years. The NGC Group has obtained the land use rights certificates on January 2006.

14. INTEREST IN AN ASSOCIATE

	RMB '000
Cost of investment in associate — unlisted	15,220

On 20 February 2004, Nanjing High Speed acquired 40% equity interest in Nanjing Mechanical Economic Development Company Limited 南京機械經濟開發有限公司, an enterprise established in the PRC and engaged in investment holding for a consideration of RMB15,220,000.

On 22 September 2004, the NGC Group's interest in this associate was disposed of to an independent third party with a consideration of RMB15,500,000.

The summarised financial information in respect of the NGC Group's associate at 25 February 2004 is set out below:

	RMB'000
Total assets	40,254
Total liabilities	1,246
Net assets	39,008
Group's share of net assets of the associate	15,603
Revenue	—
Loss for the period	13
Group's share of loss of the associate for the period	5

15. AVAILABLE-FOR-SALE INVESTMENTS

	RMB '000
Unlisted PRC investments, at cost	1,229

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

16. INVENTORIES

	RMB '000
Raw materials	21,238
Work-in-progress	131,629
Finished goods	59,084
	211,951

17. TRADE AND OTHER RECEIVABLES

	RMB '000
Notes receivable	12,429
Accounts receivable	107,245
Less: Impairment loss on doubtful debts	(11,403)
Total trade receivables	108,271
Other receivables	26,185
Advances to suppliers	39,987
	174,443

The NGC Group generally allows an average credit period of 90 days to 180 days to its trade customers.

The aged analysis of the trade receivables as at 25 February 2004 are as follows:

	RMB '000
0 - 30 days	16,739
31 - 60 days	24,729
61 - 90 days	11,111
91 - 120 days	929
121 - 180 days	9,501
181 - 365 days	35,576
1 - 2 years	8,745
2 - 3 years	941
	108,271

The directors of NGC consider that the carrying amounts of trade and other receivables approximate their fair values.

18. PLEDGED BANK DEPOSITS

The deposits carry fixed interest rate at 1.89% per annum. The pledged bank deposits will be released upon the settlement of the notes payable.

The directors of NGC consider that the carrying amount of pledged bank deposits approximates its corresponding fair value.

19. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the NGC Group and short-term bank deposits with an original maturity of three months or less. The short-term bank deposits carry fixed interest rate at 0.72% per annum. The directors of NGC consider that carrying amounts of these assets approximate their fair values.

20. TRADE AND OTHER PAYABLES

	RMB '000
Notes payable *(note 1)*	70,274
Accounts payable	87,446
Total trade payable	157,720
Advances from customers	270,241
Purchase of property, plant and equipment	38,399
Payroll and welfare payables	7,453
Accrued expenses	3,209
Other payables *(note 2)*	23,424
	500,446

Note 1: All notes payable are secured by the Group's own assets as set out in note 28.

Note 2: Other payables including RMB3.2 million conditional government grants received, which will be set off against those related loan interest expenses charged to the consolidated income statement.

The aged analysis of trade payables as at 25 February 2004 are as at follows:

	RMB '000
Trade payables	
0 - 30 days	67,246
31 - 60 days	29,544
61 - 180 days	45,605
181 - 365 days	8,355
1 - 2 years	3,858
2 - 3 years	2,142
Over 3 years	970
	157,720

The directors of NGC consider that the carrying amounts of trade and other payables approximate their corresponding fair values.

21. BANK BORROWINGS

	RMB '000
The maturity profile of the bank borrowings is as follows:	
Within one year	245,000
More than one year, but not exceeding two years	14,000
More than two years, but not exceeding three years	10,000
More than three years, but not exceeding four years	10,000
More than four years, but not exceeding five years	10,000
	289,000
Less: Amount due within one year shown under current liabilities	245,000
Amount due over one year	44,000

All of the bank borrowings are denominated in RMB. All bank borrowings are unsecured and guaranteed by 南京人民機械廠, independent third party, and related parties amounting to RMB28,000,000 and RMB145,000,000 (note 30) respectively.

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

Fixed-rate borrowings	5.4587%

All the bank loans are at fixed interest rates and expose the Group to fair value interest rate risk. The fair value of the above Group's bank loans is estimated by discounting their future cash flows at the prevailing market borrowings rates at the balance sheet date. The directors of NGC consider that the fair value of the bank borrowings approximates its corresponding carrying amount.

22. SHARE CAPITAL

	RMB '000
Authorised, issued and fully paid:	
— Domestic shares of RMB1 each at 1 January 2004 and 25 February 2004	60,000

23. DEFERRED TAX ASSETS

The followings are the major deferred tax assets recognised by the NGC Group and movements thereon during the period:

	Doubtful debts allowance	Inventories allowance	Total
	RMB '000	RMB '000	RMB '000
At 1 January 2004	1,914	594	2,508
(Charge) credit to consolidated income statement	(46)	167	121
At 25 February 2004	1,868	761	2,629

At the balance sheet date, the NGC Group has unused tax losses of RMB455,000 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. The unrecognised tax losses will expire in 2009.

24. CAPITAL RESERVES

In 2003, the NGC Group hired the dismissed employees from its holding company, Nanjing High-Speed Gear Industrial Development Co., Ltd. ("NGID") and received the dismissal wages from NGID. Pursuant to the relevant policies of relevant government authorities, the amount shall be paid to those employees when they are ultimately dismissed by the NGC Group. In the opinion of the directors of NGC, such employees are not intended to be dismissed by the NGC Group. Such dismissal wages were recorded as capital contributions from the holding company pursuant to the relevant accounting standards and the relevant regulations in the PRC. No dismissal of employees is made during the period.

25. STATUTORY RESERVES

Pursuant to relevant laws and regulations in the PRC and the Articles of Association of NGC and its subsidiaries, NGC and its subsidiaries are required to make appropriation from profit after taxation as reported in accordance with the relevant accounting principles and financial regulations applicable to companies established in the PRC to the PRC statutory surplus reserve and statutory welfare reserve at rates determined by the relevant board of directors.

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

26. CAPITAL COMMITMENTS

	RMB '000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the Financial Information	33,000

27. OPERATING LEASES

	RMB '000
Minimum lease payments under operating lease recognised as an expense	8

At the balance sheet date, the NGC Group has outstanding commitments under non-cancellable operating leases, which fall due as follows:

	RMB '000
Within one year	45
In the second to fifth year inclusive	180
After five years	1,936
	2,161

Operating lease payments represent rental payable by the NGC Group for a piece of land, which are fixed for 50 years.

28. PLEDGE OF ASSETS

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

	RMB '000
Notes receivable	4,000
Bank deposits	48,610
	52,610

29. RETIREMENT BENEFIT PLANS

The employees of the NGC Group are members of a state-managed retirement pension scheme operated by the local government. The NGC 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 NGC Group with respect to the retirement pension scheme is to make the specified contributions. The costs charged to the consolidated income statement were RMB1,416,000 for the period from 1 January 2004 to 25 February 2004. All the contributions had been paid over to the scheme as at 25 February 2004.

30. RELATED PARTY DISCLOSURES

(I) Name and relationship with related companies are as follows:

Company	Relationship
NGID 南京高速齒輪產業發展有限公司	Holding company
Nanjing Union Strong Metallurgical Group Corporation ("Union") 南京聯強冶金(集團)有限公司	Shareholder
Tianjin Xiandao Machinery & Electronic Co., Ltd. ("Xiandao") 天津市先導機電有限公司	Minority shareholder
Nanjing Yuhuatai District Saihong Bridge Street Office ("Nanjing Yuhuatai") 南京雨花區賽虹橋街道區辦事處	Holding company of minority shareholder
Other natural persons	Minority shareholders
Nanjing Ningjia Machinery & Electronic Co., Ltd. ("Nanjing Dongalloy") 南京寧嘉機電有限公司	Common beneficial shareholders
Nanjing Yongte Gear Manufacturing Co., Ltd. ("Yongte") 南京永特齒輪製造有限公司	Common beneficial shareholders

(II) Related party transactions

Company	Transaction	RMB '000
Nanjing Dongalloy	Sales of goods	415
	Purchase of materials	409
Yongte	Sales of goods	216
	Purchase of materials	2,061

In the opinion of the directors, the above transactions were conducted on normal commercial terms and in the ordinary and usual course of the Group's business.

(III) Trade and other receivables

Included in trade and other receivables are trade balances with related parties as follows:

	RMB '000
Union	1,490
Xiandao	350
	1,840

(IV) Amounts due from related parties

	RMB '000
NGID	7,928
Xiandao	2,000
Other natural persons	60
	9,988

The amounts due from related parties, which are non-trade nature and arise from funds transfer, are interest free, unsecured and recoverable within one year. All balances have already been released before the listing of the Company's shares on the Stock Exchange.

(V) Amounts due to related parties

	RMB '000
Nanjing Yuhuatai	356
NGID	143
	499

The amounts due to related parties, which are non-trade nature and arise from funds transfer, are interest free, unsecured and repayable on demand. All balances have already been released before the listing of the Company's shares on the Stock Exchange.

(VI) Guarantees from related parties

Bank borrowings guaranteed by NGID and its associate which have been released in June 2006 are as follows:

	RMB '000
Short-term bank borrowings	115,000
Long-term bank borrowings	30,000
	145,000

(VII) Compensation of key management personnel

Other than the emoluments paid to the directors of NGC, who are also considered as the key management of NGC Group as set out in note 10, the NGC Group did not have any other significant compensation to key management personnel.

B. SUBSEQUENT FINANCIAL STATEMENTS

Details of the subsequent financial statements of NGC or any of its subsidiaries are incorporated in Appendix IB of the Prospectus.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Deloitte.
德勤

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Deloitte Touche Tohmatsu
35/F One Pacific Place
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Hong Kong

20 June 2007

The Directors
China High Speed Transmission Equipment Group Co., Ltd.
Morgan Stanley Asia Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") regarding China High Speed Transmission Equipment Group Co., Ltd. (formerly known as "NSA Group Holdings Limited") (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the period from 26 February 2004 (the date on which the founder shareholders of the Company, namely Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang, Li Shengqiang, Jin Maoji, Liao Enrong, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguo (collectively referred to as the "Management Shareholders"), Pan Jinhong and Liu Xuezhong and his wife Li Yuelan, controlled more than 50% of voting rights in Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("NGC") and its subsidiaries (hereinafter collectively referred to as the "NGC Group")) to 31 December 2004 and each of the two years ended 31 December 2006 (the "Relevant Periods"), for inclusion in the prospectus of the Company dated 20 June 2007 (the "Prospectus"). The financial information regarding the NGC Group before it came under the common control of the founder shareholders (as defined in note 1 of Section A below) on 26 February 2004 for the period from 1 January 2004 to 25 February 2004 is set out in Appendix IA to the Prospectus.

The Company was incorporated and registered in the Cayman Islands under the Cayman Islands Companies Law as an exempted company with limited liability on 22 March 2005. Pursuant to a special resolution dated on 26 February 2007, the Company changed its name from "NSA Group Holdings Limited" to "China High Speed Transmission Equipment Group Co., Ltd." Pursuant to a group reorganisation (the "Group Reorganisation"), as more fully explained in the paragraph headed "Corporate Reorganisation" in Appendix VI to the Prospectus, the Company became the holding company of the companies now comprising Group on 30 December 2005.

As at the date of this report, the Company has the following subsidiaries, associate and jointly controlled entity:

Name	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct %	Indirect %	
Subsidiary					
NGC* 南京高精齒輪集團有限公司 (Formerly known as Nanjing High Speed & Accurate Gear Co., Ltd. 南京高精齒輪有限公司)	People's Republic of China ("PRC") 16 August 2001	RMB180,000,000	100	—	Manufacture and sales of gear, gear box and fittings
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed")** 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")** 南京寧凱機械有限公司	PRC 19 November 2002	RMB35,000,000	—	83.37	Engineering processing and manufacturing
Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. ("Ningjiang")*** 南京寧江齒輪箱製造有限公司	PRC 26 November 2003	US$ 1,393,264	55.14	44.86	Sales of gear, gear box and fitting
Nanjing Dongalloy Machinery& Electronic Co., Ltd. ("Nanjing Dongalloy")** 南京寧嘉機電有限公司	PRC 26 September 1994	RMB5,317,125	—	100	Sales of gear and its fitting
Nanjing Yongte Gear Box Manufacturing Co., Ltd. ("Yongte")** 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. ("Ningtai")** 南京寧泰物業管理有限公司	PRC 25 August 2003	RMB300,000	—	100	Property management

Name	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct %	Indirect %	
Nanjing High Speed & Accurate Gear (Shenyang) Sales Co., Ltd. ("Shenyang Sales Co.")** 南京高精齒輪(瀋陽)銷售有限公司	PRC 17 January 2004	RMB5,000,000	—	75	Sales of gear, gear box and its fitting
Nanjing High Accurate Wind Power Transmissions Equipment Co., Ltd. ("Nanjing Wind Power")** 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
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	—	100	Inactive
Goodgain Group Limited ("Goodgain")	British Virgin Islands ("BVI") 22 March 2005	USD1	100%	—	Inactive
Eagle Nice Holdings Limited ("Eagle Nice")	BVI 22 March 2005	USD1	100%	—	Inactive
Associate					
ZF Nanjing Marine Propulsion Co., Ltd.*** 南京采埃孚船用傳動系統有限公司	PRC 10 August 2006	RMB30,000,000	—	40	Inactive
Jointly controlled entity					
Nanjing High Accurate Construction Equipment Co., Ltd.* 南京高精工程設備有限公司	PRC 2 August 2006	RMB20,000,000	—	50	Inactive

* wholly-foreign owned enterprise established in the PRC

** domestic enterprise established in the PRC

*** sino-foreign owned enterprise established in the PRC

The statutory financial statements of the companies comprising the Group for each of the three years ended 31 December 2006 were audited by the following certified public accountants:

Name of company	Financial year	Name of auditors
NGC	For each of the three years ended 31 December 2006	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)
Nanjing High Speed	For each of the three years ended 31 December 2006	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)
Ningkai	For each of the three years ended 31 December 2006	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)
Ningjiang	For each of the three years ended 31 December 2006	南京金石城會計師事務所有限公司 (Nanjing Golden Shicheng Certified Public Accountants Co., Ltd.)
Nanjing Dongalloy	For each of the three years ended 31 December 2006	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)
Yongte	For each of the three years ended 31 December 2006	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)
Ningtai	For each of the three years ended 31 December 2006	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)
Shenyang Sales Co.	For the period from 17 January 2004 to 31 December 2004 and each of the two years ended 31 December 2006	瀋陽公信會計師事務所有限公司 (Shenyang Gongxin Certified Public Accountants Co., Ltd.)
Nanjing Wind Power	For the period from 7 March 2005 to 31 December 2005 and year ended 31 December 2006	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)
Nanjing Ningjing Complete Set of Flying Share Equipment Co., Ltd. ("Ningjing Complete Set")*	For each of the two years ended 31 December 2005	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)
Nanjing Ninghang Heavy Duty Gear Box Co., Ltd. ("Ninghang Heavy Duty")*	For each of the two years ended 31 December 2005	江蘇石城會計師事務所有限公司 (Jiangsu Shicheng Certified Public Accountants Co. Ltd.)

* Ningjing Complete Set and Ninghang Heavy Duty have been liquidated on 8 September 2006 and 22 August 2006 respectively.

All companies now comprising the Group have adopted 31 December as the financial year end date.

No audited financial statements have been prepared for the Company since its date of incorporation as there is no statutory audit requirement to do so. In addition, no audited financial statements of Goodgain and Eagle Nice have been prepared as there are no statutory audit requirements in the country of their incorporation. For the purpose of this report, we have, however, reviewed all the relevant transactions of the Company, Goodgain and Eagle Nice since their date of incorporation and carried out such procedures as we considered necessary for inclusion of the Financial Information relating to these companies.

The statutory financial statements of all companies of the NGC Group, Ningjiang and Yongte were prepared in accordance with the relevant accounting rules and financial regulations applicable to companies established in the PRC and were audited in accordance with Independent Auditing Standards for Chinese Certified Public Accountants by the respective Certified Public Accountants registered in the PRC. For the purpose of this report, the directors of the Company have prepared the consolidated financial statements of the Group for the Relevant Periods, in accordance with the International Financial Reporting Standards (the "IFRS") issued by the International Accounting Standard Board (the "IASB") and the International Financial Reporting Interpretations Committee (the "IFRIC") of the IASB (the "Underlying Financial Statements"). We have undertaken our own independent audits of the Underlying Financial Statements in accordance with International Standards on Auditing.

We have examined the Underlying Financial Statements in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" as recommended by the Hong Kong Institute of Certified Public Accountants.

The Financial Information of the Group for the Relevant Periods set out in this report has been prepared from the Underlying Financial Statements on the basis set out in Note 1A to the Financial Information. No adjustments were deemed necessary by us to the Underlying Financial Statements in preparing our report for inclusion in the Prospectus.

The Underlying Financial Statements are the responsibility of the directors of the Company who approve their issue. The directors of the Company are also responsible for the contents of the Prospectus in which this report is included. It is our responsibility to compile the Financial Information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, on the basis of presentation set out in note 1A of Section A below, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Group as at 31 December 2004, 31 December 2005 and 31 December 2006 and of the Company as at 31 December 2005 and 31 December 2006 and of the consolidated results and consolidated cash flows of the Group for the period from 26 February 2004 to 31 December 2004 and each of the two years ended 31 December 2006.

A. FINANCIAL INFORMATION

CONSOLIDATED INCOME STATEMENTS

	Notes	Period from 26 February 2004 to 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
		RMB '000	RMB '000	RMB '000
Revenue	5	688,865	946,686	1,184,307
Cost of sales		(489,656)	(672,074)	(843,544)
Gross profit		199,209	274,612	340,763
Other income	6	9,664	14,311	23,301
Discount on acquisition of subsidiaries		6,502	—	—
Distribution costs		(31,613)	(44,184)	(55,690)
Administrative expenses		(85,118)	(102,575)	(137,489)
Research and development costs		(4,196)	(8,267)	(14,660)
Finance costs	7	(13,462)	(21,230)	(41,536)
Share of loss of an associate		—	—	(836)
Loss on changes in fair value of convertible bonds		—	—	(20,111)
Profit before taxation		80,986	112,667	93,742
Taxation	8	(2,234)	(13,330)	(3,514)
Profit for the period/year	9	78,752	99,337	90,228
Attributable to:				
Equity holders of the parent		37,784	81,756	85,648
Minority interests		40,968	17,581	4,580
		78,752	99,337	90,228
Dividend attributable to:				
Equity holders of NGC		—	50,000	86,000
Minority interests		—	14,320	—
		—	64,320	86,000
Earnings per share - basic (RMB)	12	0.30	0.17	0.14

CONSOLIDATED BALANCE SHEETS

	Notes	As at 31 December 2004	2005	2006
		RMB '000	RMB '000	RMB '000
NON-CURRENT ASSETS				
Property, plant and equipment	13	455,740	510,125	866,835
Prepaid lease payments - non-current portion	14	35,759	35,007	20,291
Intangible assets	15	—	17,153	29,877
Interest in an associate	18	—	—	11,164
Available-for-sale investments	20	1,550	1,550	1,350
Contract rights on prepaid lease payments		1,060	—	—
Deposit paid for acquisition of prepaid lease payments		—	6,060	22,060
Deferred tax assets	27	4,315	1,097	1,495
		498,424	570,992	953,072
CURRENT ASSETS				
Inventories	21	287,149	229,313	347,509
Prepaid lease payments - current portion	14	752	752	305
Trade and other receivables	22	177,410	416,569	530,242
Amounts due from related parties	42	31,068	12,993	2,578
Pledged bank deposits	23	100,991	148,013	192,779
Bank balances and cash	24	63,109	63,517	196,098
		660,479	871,157	1,269,511
CURRENT LIABILITIES				
Trade and other payables	25	503,928	562,424	777,028
Amounts due to related parties	42	158	136,124	11,127
Dividend payable		1,834	124	—
Tax payable		4,994	8,012	3,840
Bank borrowings - due within one year	26	329,000	460,800	612,615
		839,914	1,167,484	1,404,610
NET CURRENT LIABILITIES		(179,435)	(296,327)	(135,099)
TOTAL ASSETS LESS CURRENT LIABILITIES		318,989	274,665	817,973
NON-CURRENT LIABILITIES				
Bank borrowings - due after one year	26	50,000	90,000	284,586
Deferred tax liabilities	27	—	674	2,159
		50,000	90,674	286,745
		268,989	183,991	531,228
CAPITAL AND RESERVES				
Share capital	28	20,000	8	12
Reserves		161,861	133,760	526,987
Equity attributable to equity holders of the parent		181,861	133,768	526,999
Minority interests		87,128	50,223	4,229
		268,989	183,991	531,228

BALANCE SHEETS

	Notes	As at 31 December 2005	2006
		RMB '000	RMB '000
NON-CURRENT ASSET			
Investments in subsidiaries	17	134,475	239,022
CURRENT ASSETS			
Other receivables	22	8	4,003
Bank balances and cash	24	10	236
		18	4,239
CURRENT LIABILITIES			
Other payables	25	11	118
Amounts due to related parties	42	134,473	10,971
Amounts due to subsidiaries	17	2	13,477
		134,486	24,566
NET CURRENT LIABILITIES		(134,468)	(20,327)
		7	218,695
CAPITAL AND RESERVES			
Share capital	28	8	12
Reserves	29	(1)	218,683
		7	218,695

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Attributable to equity holders of the parent										
	Paid-in-capital/ Share capital	Share premium	Deemed capital contribution reserve	Capital reserve	Statutory surplus reserve	Statutory welfare reserve	Other reserve	Retained profits	Total	Minority interests	Total
	RMB '000	RMB '000	RMB '000 (note 30)	RMB '000 (note 31)	RMB '000 (note 32)	RMB '000 (note 32)	RMB '000 (note 33)	RMB '000	RMB '000	RMB '000	RMB '000
At 26 February 2004	—	—	—	—	—	—	57,058	—	57,058	96,496	153,554
Capital contributions from shareholders	20,000	13,600	—	—	—	—	—	—	33,600	—	33,600
Capital contribution from a minority shareholder	—	—	—	—	—	—	—	—	—	18,620	18,620
Profit for the period and total recognised income	—	—	—	—	—	—	—	37,784	37,784	40,968	78,752
Appropriations	—	—	—	—	8,172	8,172	—	(16,344)	—	—	—
Acquired on acquisition of a subsidiary	—	—	—	—	—	—	—	—	—	3,083	3,083
Acquisition of additional equity-interest in a subsidiary by NGC	—	—	—	—	—	—	—	—	—	(18,620)	(18,620)
Acquisition of additional equity interest in NGC by founder shareholders (note a)	—	—	—	—	—	—	53,419	—	53,419	(53,419)	—
At 31 December 2004	20,000	13,600	—	—	8,172	8,172	110,477	21,440	181,861	87,128	268,989
Capital contributions from shareholders	21,537	13,880	—	—	—	—	—	—	35,417	14,500	49,917
Share issued by the Company on its incorporation	8	—	—	—	—	—	—	—	8	—	8
Profit for the year and total recognised income	—	—	—	—	—	—	—	81,756	81,756	17,581	99,337
Dividend paid	—	—	—	—	—	—	—	(50,000)	(50,000)	—	(50,000)
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	(14,320)	(14,320)
Appropriations	—	—	—	—	9,425	9,425	—	(18,850)	—	—	—
Acquisition of additional equity interests in subsidiaries by NGC	—	—	—	11,885	—	—	—	—	11,885	(47,352)	(35,467)
Acquisition of additional equity interest in NGC by founder shareholders (note a)	—	—	—	—	—	—	7,314	—	7,314	(7,314)	—
Effect of the Group Reorganisation (note 1)	(41,537)	(27,480)	—	—	—	—	(65,456)	—	(134,473)	—	(134,473)
At 31 December 2005	8	—	—	11,885	17,597	17,597	52,335	34,346	133,768	50,223	183,991
Issue of ordinary shares	1	10,892	—	—	—	—	—	—	10,893	—	10,893
Issue of shares from conversion of convertible bonds	3	162,830	—	—	—	—	—	—	162,833	—	162,833
Deemed capital contribution from shareholders	—	—	77,651	—	—	—	—	—	77,651	—	77,651
Capital contributions from minority shareholders	—	—	—	—	—	—	—	—	—	134,069	134,069
Profit for the year and total recognised income	—	—	—	—	—	—	—	85,648	85,648	4,580	90,228
Transfer	—	—	—	—	17,597	(17,597)	—	—	—	—	—
Disposal of a subsidiary to related parties	—	—	—	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)
Appropriation	—	—	—	—	14,729	—	—	(14,729)	—	—	—
Acquisition of additional equity interests in subsidiaries by NGC	—	—	—	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

Note a: Other reserve represents the acquisition of additional equity interest in NGC and contributed to the Group by the founder shareholders of NGC.

Note b: Capital reserve arising from acquisition of additional equity interest in NGC represents the difference between the consideration paid by the Company and the carrying amount of net assets of NGC Group acquired.

CONSOLIDATED CASH FLOW STATEMENTS

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
OPERATING ACTIVITIES			
Profit before taxation	80,986	112,667	93,742
Adjustments for:			
Allowance for inventories	4,433	1,408	4,253
Amortisation of intangible assets	—	1,310	3,527
Change in fair value of convertible bonds	—	—	20,111
Depreciation of property, plant and equipment	34,491	55,645	57,078
Discount on acquisition of additional interest in a subsidiary	(6,502)	—	—
Finance costs	13,462	21,230	41,536
(Gain) loss on disposal of property, plant and equipment	(62)	318	843
Impairment loss on trade and other receivables	5,633	6,591	4,957
Impairment of goodwill	—	—	306
Interest income	(3,349)	(3,187)	(4,176)
Investment income	(940)	(21)	(63)
Release of prepaid lease payments	626	752	305
Share of loss of an associate	—	—	836
Operating cash flows before movements in working capital	128,778	196,713	223,255
(Increase) decrease in inventories	(73,899)	56,428	(122,449)
Decrease (increase) in trade and other receivables	14,112	(261,250)	(129,550)
(Decrease) increase in trade and other payables	(18,271)	46,270	193,477
Cash generated from operations	50,720	38,161	164,733
Income tax paid	(2,642)	(6,420)	(6,599)
NET CASH FROM OPERATING ACTIVITIES	48,078	31,741	158,134

	Notes	Period from 26 February 2004 to 31 December 2004	Year ended 31 December 2005	Year ended 31 December 2006
		RMB '000	RMB '000	RMB '000
INVESTING ACTIVITIES				
Acquisition of additional equity interests in subsidiaries		(19,680)	(35,467)	(32,034)
Acquisition of investment in an associate		—	—	(12,000)
Acquisition of subsidiaries	34	8,990	—	—
(Advance to) repayment from related parties		(21,080)	18,075	10,415
Deposit paid for acquisition of prepaid lease payments		—	(5,000)	(16,000)
Disposal of a subsidiary	35	—	—	19,896
Dividends received from investments		56	21	63
Expenditure on product development		—	(16,963)	(16,251)
Increase in pledged bank deposits		(52,381)	(47,022)	(44,766)
Interest received		3,349	3,187	4,176
Prepaid lease payments paid		—	—	(2,980)
Proceeds on disposal of available-for-sale investments		774	—	200
Proceeds on disposal of property, plant and equipment		62	73	811
Purchase of available-for-sale investments		(370)	—	—
Purchase of property, plant and equipment		(82,365)	(94,448)	(396,379)
Reduction as a result of the liquidation of subsidiaries		—	—	(2,985)
Repayment of receivable on disposal of investment in an associate		—	15,500	—
NET CASH USED IN INVESTING ACTIVITIES		(162,645)	(162,044)	(487,834)
FINANCING ACTIVITIES				
Capital contribution from minority shareholders		18,620	13,000	134,069
Capital contribution from shareholders		33,600	35,417	—
Dividend paid to equity holders of NGC		(34,307)	(51,710)	(86,124)
Dividend paid to minority shareholders of subsidiaries		—	(14,320)	—
Interest paid		(13,462)	(24,976)	(37,387)
New bank borrowings raised		365,000	661,800	931,201
Issue of convertible bonds		—	—	219,426
Issue of ordinary shares		—	8	10,893
Repayment of bank borrowings		(276,600)	(490,000)	(584,800)
(Repayment to) advance from related parties		(341)	1,492	(124,997)
NET CASH FROM FINANCING ACTIVITIES		92,510	130,711	462,281
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(22,057)	408	132,581
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD/YEAR		85,166	63,109	63,517
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD/YEAR, representing bank balances and cash		63,109	63,517	196,098

NOTES TO THE FINANCIAL INFORMATION

1. GENERAL

NGC was owned by the Management Shareholders, Pan Jinhong and Liu Xuezhong and his wife Li Yuelan (hereinafter collectively referred to as the "founder shareholders') and other shareholders on 26 February 2004. The founder shareholders have collectively controlled NGC since that date and gradually acquired additional equity interests in NGC up to November 2005.

The Company was incorporated by the founder shareholders and other shareholders on 22 March 2005 and the Company effected a group reorganisation (the "Group Reorganisation") by entering into a share acquisition agreement on 26 December 2005 to acquire approximately 91% equity interests in NGC from the founder shareholders and other shareholders at a cash consideration of RMB 134,473,000 which took effect from 30 December 2005. Subsequent to the completion of the Group Reorganisation, the Company acquired the remaining approximately 9% equity interest in NGC during the year ended 31 December 2006 at an aggregate consideration of RMB 23,893,000 and NGC became a wholly owned subsidiary of the Group in August 2006.

The Group had net current liabilities as at 31 December 2004, 2005 and 2006. It finances its operations by short-term and long-term bank borrowings while more reliance on the use of short-term borrowings as the corresponding borrowing costs are lower comparing to long-term financing. The directors of the Company are of the opinion that, taking into account the presently available banking facilities and internal financial resources of the Group and the estimated net proceeds of the Hong Kong Public Offering and the International Placing, the Group has sufficient working capital to meet its present obligation for at least the next 12 months commencing from the date of this report. Hence, the Financial Information has been prepared on a going concern basis.

1A. BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Financial Information has been prepared on the basis as if the Company had always been the holding company of NGC using the principles of merger accounting. The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements for the Relevant Periods includes the results and cash flows of the companies now comprising the Group as if the current group structure had been in existence throughout the Relevant Periods, or since their respective dates of incorporation/establishment or up to the effective date of disposal where this is a shorter period, except that (i) the results attributable to the shareholders of NGC other than the founder shareholders prior to the Group Reorganisation were treated as minority interests; and (ii) results and cash flows of Yongte and Nanjing Dongalloy are accounted for by using the purchase method. The consolidated balance sheet of the Group as at 31 December 2004 has been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure had been in existence as of that date in accordance with the then effective interests held by the founder shareholders as at that date.

All significant intra-group transactions, cash flows and balances have been eliminated on consolidation.

The Financial Information is presented in Renminbi which is the same as the functional currency of the Company.

2. APPLICATION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS

For the purposes of preparing and presenting the Financial Information of the Relevant Periods, the Group has applied all the new and revised International Accounting Standards ("IASs"), International Financial Reporting Standards ("IFRSs"), amendments and interpretations (herein collectively referred to as "new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are either effective for accounting periods beginning on or after 1 January 2005, 1 December 2005 or 1 January 2006.

At the date of the report, the IASB and IFRIC has issued the following new standards, amendments and interpretations that have issued but not yet effective. The directors of the Company anticipate that the application of these new standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

IAS 1 (Amendment)	Capital disclosures[1]
IAS 23 (Amendment)	Borrowing costs[2]

IFRS 7	Financial instruments: Disclosures[1]
IFRS 8	Operating segments[2]
IFRIC 7	Applying the restatement approach under IAS 29 Financial reporting in hyperinflationary economies[3]
IFRIC 8	Scope of IFRS 2[4]
IFRIC 9	Reassessment of embedded derivatives[5]
IFRIC 10	Interim financial reporting and impairment[6]
IFRIC 11	IFRS 2: Group and treasury share transactions[7]
IFRIC 12	Service concession arrangements[8]

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

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

[3] Effective for annual periods beginning on or after 1 March 2006

[4] Effective for annual periods beginning on or after 1 May 2006

[5] Effective for annual periods beginning on or after 1 June 2006

[6] Effective for annual periods beginning on or after 1 November 2006

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Financial Information has been prepared on the historical cost basis and in accordance with the following accounting policies which conform to IFRSs. In addition, the Financial Information includes applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and by the Hong Kong Companies Ordinance. The principal accounting policies adopted are set out below.

Basis of consolidation

The Financial Information 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.

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 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 interest in subsidiaries

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

Business combinations

The acquisition of subsidiaries, other than under the Group Reorganisation, is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 Business Combinations are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition, if any, is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Merger accounting for common control combinations

The Financial Information incorporates the financial statement items of the combining entities or businesses in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are consolidated using the existing book values from the controlling parties' perspective. No amount is recognised in respect of goodwill or excess of acquirers' interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The consolidated income statement includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

The comparative amounts in the Financial Information are presented as if the entities or businesses had been consolidated at the previous balance sheet date or when they first came under common control, whichever is shorter.

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 Financial Information 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 Financial Information.

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

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 receivables for goods sold 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 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".

Property, plant and equipment

Property, plant and equipment other than construction in progress are stated at cost less accumulated depreciation and accumulated impairment loss.

Construction in progress is stated at cost, which comprises all direct costs incurred in relation to their construction, less accumulated impairment loss. The cost of construction in progress will not be depreciated until they are available for use and are transferred to a specific category of property, plant and equipment when the construction is completed.

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.

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 the 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.

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.

Impairment of assets

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and estimated costs necessary to make the sale.

Foreign currencies

In preparing the financial statements of the individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded at its 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 in profit or loss in the period in which they are incurred.

Taxation

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

The tax currently payable is based on taxable profit for the period/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 respective balance sheet dates.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the Financial Information 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 (other than in a business combination) 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 based on tax rates that have been enacted by the respective balance sheet dates. 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.

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 term 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.

Financial assets

The Group's financial assets are classified into one of the two categories, including 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. The accounting policies adopted in respect of each category of financial assets are set out below.

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, 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. 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. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction 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.

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. 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 are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired. The amount of the impairment loss is measured as the difference between the carrying amount of the asset 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 losses will not reverse in subsequent periods.

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. The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss has two subcategories, including financial liabilities held for trading and those designated at fair value through profit or loss on initial recognition.

A financial liability other than a financial liability held for trading may be 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 IAS 39 permits the entire combined contract (asset or liability) to be designated as at fair value through profit or loss.

Convertible bonds issued by the Group are designated at fair value through profit or loss on initial recognition. At each balance sheet date subsequent to initial recognition, convertible bonds are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise.

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to related parties, dividend payable 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.

For financial liabilities, they 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 or 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. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include bank deposits, trade and other receivables, amounts due from and to related parties, trade and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and 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) *Fair value interest rate risk*

Interest bearing financial assets are mainly pledged bank deposits and bank balances and carry at fixed interest rates. However, they are all short term in nature that have not exposed the Group to significant fair value interest rate risk. Interest bearing financial liabilities are mainly bank borrowings with fixed interest rates. Therefore, the Group is exposed to significant fair value interest rate risk. The Group currently does not have an interest rate hedging policy. However, management monitors interest rate exposure and will consider hedging the interest rate risk should the need arise.

(ii) *Foreign currency risk*

Foreign currency risk refers to the risk that movement in foreign currency exchange rate which will affect the Group's financial results and its cash flows. The Group carries out majority of its transactions in Renminbi, the functional currency of the relevant group entities and accordingly, the Group is not exposed to any significant foreign currency risk.

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties and financial guarantees issued by the Group arise from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheets and the amount of contingent liabilities disclosed in note 38.

The Group's credit risk primarily relates to the Group's trade receivables. In order to minimise the risk, management of the Group has delegated a team responsible for closely monitoring overdue trade debts. The recoverable amount of each individual trade debt is reviewed at each balance sheet date and adequate impairment losses have been made for irrecoverable amounts. In this regard, the directors of the Company consider that credit risk associated with the Group's trade receivables is significantly reduced.

The credit risk on bank balances and pledged bank deposits are minimal because the counterparties are banks with high credit-ratings.

The Group is exposed to concentration of credit risk in amount due from related parties in 2004 as the balance with Nanjing Hongxin Venture Capital Co., Ltd as at 31 December 2004 amounted to RMB15.5 million. However, this balance was subsequently settled in 2005. Other than the above, the Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. In the opinion of the directors of the Company, by taking into account the presently available banking facilities and internal financial resources, the Group expects to have adequate source of funding to finance the Group and manage the liquidity position.

5. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the net amounts received and receivable for goods sold, net of sales taxes and return, for the year. An analysis of the Group's revenue is as follows:

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Sales of products			
- High-speed Series Gear Transmission Equipment	22,683	27,518	17,714
- Gear Transmission Equipment for Construction Materials	285,881	307,767	195,435
- General Purpose Gear Transmission Equipment	78,014	90,199	139,184
- Gear Transmission Equipment for Ball-rolling, Wire-rolling and Plate-rolling Mills	146,053	301,022	289,162
- Wind Gear Transmission Equipment	656	26,526	317,743
- Marine Gear Transmission Equipment	—	718	3,168
- Others	155,578	192,936	221,901
	688,865	946,686	1,184,307

The Group's operation is regarded as a single segment, being the production and sale of gear products.

Primary reporting 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 where the products are delivered:

Income statements

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Turnover			
PRC	662,263	868,073	1,046,204
Non-PRC	26,602	78,613	138,103
	688,865	946,686	1,184,307
Segment result			
PRC	164,986	219,257	260,943
Non-PRC	6,472	19,135	33,243
	171,458	238,392	294,186
Other income	5,802	6,347	14,188
Discount on acquisition of subsidiaries	6,502	—	—
Finance costs	(13,462)	(21,230)	(41,536)
Share of loss of an associate	—	—	(836)
Loss on change in fair value of convertible bonds	—	—	(20,111)
Unallocated expenses	(89,314)	(110,842)	(152,149)
Profit before taxation	80,986	112,667	93,742
Taxation	(2,234)	(13,330)	(3,514)
Profit for the period/year	78,752	99,337	90,228

Assets and liabilities

	At 31 December		
	2004	2005	2006
	RMB'000	RMB'000	RMB'000
Segment assets			
PRC	138,030	327,255	407,032
Non-PRC	6,529	39,287	72,177
	144,559	366,542	479,209
Unallocated assets	1,014,344	1,075,607	1,743,374
Consolidated total assets	1,158,903	1,442,149	2,222,583

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 on located in the PRC.

6. OTHER INCOME

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Sales of scrap materials	3,862	7,964	9,113
Interest income	3,349	3,187	4,176
Government grants	386	1,757	7,508
Investment income	940	21	63
Others	1,127	1,382	2,441
	9,664	14,311	23,301

7. FINANCE COSTS

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Interests on bank borrowings wholly repayable within five years	13,462	24,976	36,440
Interest on convertible bonds	—	—	11,918
Less: amounts capitalised	—	(3,746)	(6,822)
	13,462	21,230	41,536

8. TAXATION

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	**2005**	**2006**
	RMB '000	**RMB '000**	**RMB '000**
PRC enterprise income tax			
- Current year	8,232	14,459	15,134
- (Over)under provision in respect of prior period/year	—	(329)	572
- Other tax benefit *(note)*	(4,312)	(4,692)	(13,279)
	3,920	9,438	2,427
Deferred tax (note 27)	(1,686)	3,892	1,087
	2,234	13,330	3,514

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. During the year ended 31 December 2005, the legal form of NGC has changed from a domestic enterprise to a foreign invested enterprise and further changed to a foreign wholly-owned enterprise on 28 August 2006, the applicable income tax rate is 15% throughout the Relevant Periods accordingly. In accordance with the tax legislations applicable to foreign invested enterprises, NGC is entitled to exemptions from PRC enterprise income tax for the two years commencing from its first profit-making year of operations, after offsetting all unexpired tax losses carried forward from the previous years, and thereafter, entitled to a 50% relief from PRC enterprise income tax for the next three years (the "Tax Exemption"). Year ended 31 December 2006 is the first year for NGC to enjoy the Tax Exemption.

Nanjing High Speed, Nanjing Dongalloy and Ningjiang are also advanced technology enterprises and located in Jiangning Science Park, Nanjing New & High Technology Industry Development Zone and Nanjing Civil Science Park respectively. The applicable income tax rate is 15%. Upon the approval of the relevant tax bureau, Nanjing High Speed and Ningjiang were exempted from enterprise income tax for the Relevant Periods.

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

Note: Pursuant to a Circular Caishuizi 1999 No. 290 dated 8 December 1999 issued by the Ministry of Finance and the State Administration of Taxation and a Circular Guoshuifa 2000 No. 130 dated 17 January 2000 issued by 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, 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. The tax benefits are available to all enterprises.

The taxation for the Relevant Periods can be reconciled to the profit before taxation as follows:

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	**2005**	**2006**
	RMB '000	**RMB '000**	**RMB '000**
Profit before taxation	80,986	112,667	93,742
Tax at income tax rate of 33%	26,725	37,180	30,935
Income tax on concessionary rate and tax exemption	(19,953)	(24,848)	(33,333)
Tax effect of expenses not deductible for tax purposes(1)	1,254	6,717	18,452
Tax effect of income not taxable for tax purposes(2)	(1,867)	(600)	(177)
Tax effect of tax losses not recognised	438	69	348
Utilisation of tax losses previously not recognised	(51)	(167)	(4)
(Over) under provision in respect of prior period/year	—	(329)	572
Other tax benefit(3)	(4,312)	(4,692)	(13,279)
Taxation for the period/year	2,234	13,330	3,514

Details of deferred taxation for the Relevant Periods are set out in note 27.

(1) Tax effect of expenses not deductible mainly represents entertainment expense and staff benefit that exceeds the limit under PRC tax rule, research and development cost and allowance for inventory and trade and other receivable which are not deductible under PRC tax rule. The particular increase in 2006 is due to the loss on changes in fair value of convertible bonds.

(2) Tax effect of income not taxable mainly represents the investment income and inter-company charges which are not accessible under the relevant tax jurisdiction.

(3) Other tax benefit represents the tax benefit received from the purchase of domestic equipments to cope with the expansion of production capacity.

9. PROFIT FOR THE PERIOD/YEAR

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	**2005**	**2006**
	RMB '000	**RMB '000**	**RMB '000**
Profit for the period/year has been arrived at after charging (crediting):			
Staff costs, including directors' emoluments	93,055	118,414	149,368
Less: staff cost included in research and development costs	(2,669)	(4,337)	(7,918)
Total staff costs, including directors' emoluments	90,386	114,077	141,450
Allowance for inventories	4,433	1,408	4,253
Amortisation of intangible assets (included in administrative expenses)	—	1,310	3,527
Cost of inventory recognised as expense	485,223	670,666	839,291
Depreciation of property, plant and equipment	34,491	55,645	57,078
(Gain) loss on disposal of property, plant and equipment	(62)	318	843
Impairment loss on trade and other receivables	5,633	6,591	4,957
Impairment of goodwill (included in administrative expenses)	—	—	306
Release of prepaid lease payments	626	752	305

10. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid to directors for the Relevant Periods are as follows:

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Directors			
- fee	—	—	—
- salaries and other allowances	2,488	3,683	4,693
- retirement benefit plan contributions	59	79	79
Total emoluments	2,547	3,762	4,772
Hu Yueming	435	624	728
Chen Yongdao	352	523	658
Li Cunzhang	352	523	658
Lu Xun	352	523	658
Li Shengqiang	352	523	658
Liu Jianguo	352	523	658
Liao Enrong	352	523	658
Pan Jinhong (Resigned on 1 March 2007)	—	—	12
Liu Xuezhong (Resigned on 1 March 2007)	—	—	12
Zhang Wei	—	—	12
Liu Zhen (Resigned on 1 March 2007)	—	—	12
Zhu Keming	—	—	12
Wang Qi	—	—	12
He Mingqi (Resigned on 27 February 2007)	—	—	12
Richard Andrew Cornish Piliero	—	—	12
	2,547	3,762	4,772

Employees

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

During the Relevant Periods, 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 the Relevant Periods.

11. DIVIDENDS

No dividend has been paid or declared by the Company since its date of incorporation. However, in respect of the Relevant Periods, dividends were declared by NGC to their then shareholders prior to the Group Reorganisation.

The rates of dividends and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share for the Relevant Periods were based on profit for the period/year attributable to equity holders of the parent of RMB37,784,000, RMB81,756,000 and RMB85,648,000 and on weighted average number of 127,209,000, 476,075,000 and 610,242,000 ordinary shares in issue respectively, assuming the capitalisation issue as described in the section headed "Statutory and General Information" in Appendix VI to the Prospectus occurred on the first day of the Relevant Periods.

No diluted earnings per share is presented for the period/year ended 31 December 2004 and 2005 as there was no potential dilutive shares in issue.

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

13. 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 26 February 2004	104,300	202,013	15,999	24,963	109,210	—	3,633	460,118
Acquisition of subsidiaries	4,710	4,762	334	1,077	—	—	—	10,883
Additions	354	2,447	253	489	77,715	650	457	82,365
Transfer	6,400	71,418	12,192	9,787	(99,797)	—	—	—
Disposals	—	—	—	(26)	—	—	—	(26)
At 31 December 2004	115,764	280,640	28,778	36,290	87,128	650	4,090	553,340
Additions	220	3,480	316	80	105,794	400	131	110,421
Transfer	22,856	90,152	5,446	1,811	(120,265)	—	—	—
Disposals	—	(36)	—	(476)	—	—	—	(512)
At 31 December 2005	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
DEPRECIATION								
At 26 February 2004	4,396	46,386	4,731	6,006	—	—	1,616	63,135
Charge for the period	3,601	21,851	3,883	4,456	—	18	682	34,491
Eliminated on disposals	—	—	—	(26)	—	—	—	(26)
At 31 December 2004	7,997	68,237	8,614	10,436	—	18	2,298	97,600
Charge for the year	5,762	36,230	6,084	6,419	—	297	853	55,645
Eliminated on disposals	—	—	—	(121)	—	—	—	(121)
At 31 December 2005	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
CARRYING AMOUNTS								
At 31 December 2004	107,767	212,403	20,164	25,854	87,128	632	1,792	455,740
At 31 December 2005	125,081	269,769	19,842	20,971	72,657	735	1,070	510,125
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%

14. PREPAID LEASE PAYMENTS

	As at 31 December		
	2004	**2005**	**2006**
	RMB '000	**RMB '000**	**RMB '000**
Medium-term land use rights in the PRC	36,511	35,759	20,596
Analysed for reporting purpose as:			
Current assets	752	752	305
Non-current assets	35,759	35,007	20,291
	36,511	35,759	20,596

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

15. INTANGIBLE ASSETS

	Development costs	**Know-how**	**Total**
	RMB '000	**RMB '000**	**RMB '000**
COST			
At 26 February 2004 and 31 December 2004	—	—	—
Additions	16,963	1,500	18,463
At 31 December 2005	16,963	1,500	18,463
Additions	16,251	—	16,251
At 31 December 2006	33,214	1,500	34,714
AMORTISATION			
At 26 February 2004 and 31 December 2004	—	—	—
Charge for the year	1,185	125	1,310
At 31 December 2005	1,185	125	1,310
Charge for the year	3,377	150	3,527
At 31 December 2006	4,562	275	4,837
CARRYING AMOUNTS			
At 31 December 2004	—	—	—
At 31 December 2005	15,778	1,375	17,153
At 31 December 2006	28,652	1,225	29,877

The intangible assets included above are fulfill the recognition requirement under IAS 38 "Intangible assets" as they can be measured reliably and can generate future economic benefits. They have finite 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.

16. GOODWILL

	RMB '000
COST	
At 26 February 2004, 31 December 2004 and 31 December 2005	—
Arising on acquisition of additional equity interest in a subsidiary	306
At 31 December 2006	306
IMPAIRMENT	
At 26 February 2004, 31 December 2004 and 31 December 2005	—
Impairment loss recognised for the year	306
At 31 December 2006	306
CARRYING AMOUNTS	
At 31 December 2004	—
At 31 December 2005	—
At 31 December 2006	—

The recoverable amount of the subsidiary is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the budget period.

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	As at 31 December	
	2005	2006
	RMB '000	RMB '000
Unlisted investments, at cost	134,475	239,022

The amounts due to subsidiaries are unsecured, interest free and repayable on demand. The directors of the Company consider that the balances approximate their corresponding fair values at each balance sheet date.

18. INTEREST IN AN ASSOCIATE

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Cost of unlisted investment in an associate	—	—	12,000
Share of post-acquisition loss	—	—	(836)
	—	—	11,164

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

	2006
	RMB '000
Total assets	30,724
Total liabilities	(2,803)
Net assets	27,921
Group's share of net assets of an associate	11,164
Revenue	—
Loss for the year	2,090
Group's share of results of an associate for the year	836

19. 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 summarized 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:

	2006
	RMB '000
Current assets	12,277
Non-current assets	120
Current liabilities	2,392
Non-current liabilities	—
Income	—
Expense	5

20. AVAILABLE-FOR-SALE INVESTMENTS

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Unlisted PRC investments, at cost	1,550	1,550	1,350

The above 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.

21. INVENTORIES

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Raw materials	29,890	33,873	54,862
Work-in-progress	181,978	124,969	185,049
Finished goods	75,281	70,471	107,598
	287,149	229,313	347,509

22. TRADE AND OTHER RECEIVABLES

	THE GROUP			THE COMPANY	
	As at 31 December			As at 31 December	
	2004	2005	2006	2005	2006
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Notes receivable	10,531	171,888	204,183	—	—
Accounts receivables	149,218	217,879	303,081	—	—
Less: Impairment for doubtful debts	(15,190)	(23,225)	(28,055)	—	—
Total trade receivables	144,559	366,542	479,209	—	—
Advances to suppliers	20,486	22,698	37,921	—	—
Other receivables	12,365	27,329	13,112	8	4,003
	177,410	416,569	530,242	8	4,003

The Group generally allows an average credit period of 90 days to 180 days to its trade customers.

The aged analysis of the Group's trade receivables as at each of the balance sheet date are as follows:

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
0 - 30 days	41,771	96,234	208,837
31 - 60 days	14,063	60,717	61,308
61 - 90 days	12,043	35,927	48,313
91 - 120 days	20,409	55,627	49,877
121 - 180 days	7,390	60,439	60,647
181 - 365 days	29,636	30,854	35,121
1 - 2 years	17,628	17,239	14,315
2 - 3 years	1,619	9,505	791
	144,559	366,542	479,209

The directors of the Company consider that the carrying amounts of trade and other receivables approximate their corresponding fair values at each balance sheet date.

23. PLEDGED BANK DEPOSITS

The deposits carry fixed interest rate at 1.89%, 1.89% and 2.25% per annum as at 31 December 2004, 2005 and 2006 respectively. The pledged bank deposits will be released upon the settlement of the notes payable and expiration of the letter of credit facilities.

The directors of the Company consider that the carrying amount of the pledged bank deposits at each balance sheet date approximates its corresponding fair value.

24. BANK BALANCES AND CASH

Bank balances and cash comprise cash held by the Group and the Company and short-term bank deposits with an original maturity of three months or less. The short-term bank deposits carry fixed interest rate at 0.72% per annum as at 31 December 2004, 2005 and 2006. The directors of the Company consider that the carrying amounts of these assets approximate their fair values at each balance sheet date.

25. TRADE AND OTHER PAYABLES

	THE GROUP			THE COMPANY	
	As at 31 December			As at 31 December	
	2004	2005	2006	2005	2006
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Notes payable *(note)*	70,614	207,682	296,775	—	—
Accounts payables	171,060	156,923	188,672	—	—
Total trade payables	241,674	364,605	485,447	—	—
Advances from customers	208,722	124,616	210,484	—	—
Purchase of property, plant and equipment	11,019	23,246	35,515	—	—
Payroll and welfare payables	16,478	15,561	17,506	—	—
Accrued expenses	5,231	6,878	4,608	—	—
Other payables	20,804	27,518	23,468	11	118
	503,928	562,424	777,028	11	118

Note: All notes payable are secured by the Group's own assets as set out in note 39.

The aging analysis of trade payables as at each balance sheet date are as follows:

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
0 - 30 days	91,166	78,085	165,429
31 - 60 days	31,364	42,175	88,207
61 - 180 days	86,664	225,895	215,504
181 - 365 days	20,958	10,994	8,376
1 - 2 years	6,430	4,881	4,389
2 - 3 years	2,866	1,453	1,381
Over 3 years	2,226	1,122	2,161
	241,674	364,605	485,447

The directors of the Company consider that the carrying amounts of the trade and other payables approximate their corresponding fair values at each balance sheet date.

26. BANK BORROWINGS

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
The maturity profile of the bank borrowings is as follows:			
Within one year	329,000	460,800	612,615
More than one year, but not exceeding two years	20,000	20,000	50,000
More than two years, but not exceeding three years	20,000	10,000	180,000
More than three years, but not exceeding four years	10,000	60,000	—
More than four years, but not exceeding five years	—	—	54,586
	379,000	550,800	897,201
Less: Amount due within one year shown under current liabilities	(329,000)	(460,800)	(612,615)
Amount due over one year	50,000	90,000	284,586

All bank borrowings are unsecured and guaranteed by independent third parties and related parties as follows:

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Guaranteed by:			
Independent third parties			
— 南京人民機械廠	14,000	—	—
— 南京江寧科技園科技發展有限公司	30,000	—	—
	44,000	—	—
Related companies (note 42)	151,000	169,000	—
	195,000	169,000	—

At 31 December 2006, the Group's borrowings that are denominated in currencies other than RMB (the functional currency) are US$7,000,000 (2005 and 2004: nil), which converted at the balance sheet exchange rate to approximately RMB54,586,000 at 31 December 2006 (2005 and 2004: nil). All other bank borrowings are denominated in RMB.

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

	As at 31 December		
	2004	2005	2006
	%	%	%
Fixed-rate borrowings	5.3024	5.5898	6.3769

All the bank borrowings are at fixed interest rates and expose the Group to fair value interest rate risk. The fair value of the above Group's bank borrowings is estimated by discounting their future cash flows at the prevailing market borrowing rates at the respective balance sheet date. The fair values of the bank borrowings approximate their corresponding carrying amounts at each balance sheet date.

As at 31 December 2006, the Group have banking facilities of RMB1,159 million, of which RMB262 million was unutilised. Among the undrawn banking facilities, RMB216 million, RMB22 million and RMB24 million will mature in 2008, 2009 and 2011 respectively.

27. DEFERRED TAX

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

	Doubtful debts allowance	Inventories allowance	Capitalise development costs (note)	Total
	RMB '000	RMB '000	RMB '000	RMB '000
At 26 February 2004	(1,868)	(761)	—	(2,629)
Credit to consolidated income statement	(1,038)	(648)	—	(1,686)
At 31 December 2004	(2,906)	(1,409)	—	(4,315)
Charge to consolidated income statement	2,489	729	674	3,892
At 31 December 2005	(417)	(680)	674	(423)
Charge to consolidated income statement	(450)	52	1,485	1,087
At 31 December 2006	(867)	(628)	2,159	664

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 financial information.

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:

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Deferred tax assets	(4,315)	(1,097)	(1,495)
Deferred tax liabilities	—	674	2,159
	(4,315)	(423)	664

The Group has unused tax losses of RMB1,783,000, RMB1,389,000 and RMB2,062,000 as at 31 December 2004, 31 December 2005 and the 31 December 2006, respectively, 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. For the unrecognised tax losses at 31 December 2006, RMB797,000, RMB209,000 and RMB1,056,000 will expire in 2009, 2010 and 2011 respectively.

28. SHARE CAPITAL

	Number of shares	Amount	Equivalent to
	(in thousand)	USD'000	RMB '000
Authorized:			
Ordinary shares of US$0.01 each on incorporation and at 31 December 2005 and 31 December 2006 (note 1)	90,000	900	7,053
Issued and fully paid:			
Ordinary shares of US$0.01 on incorporation and at 31 December 2005 (note 2)	100	1	8
Issue of shares on 11 August 2006 (note 3)	7	—	1
Further issue of shares on 22 December 2006 (note 4)	38	—	3
At 31 December 2006	145	1	12

Notes:

(1) The Company was incorporated on 23 March 2005 with an authorized share capital of US$900,000.

(2) At the time of incorporation, 100 shares of US$0.01 each were issued at par to the subscriber to provide the initial capital to Company.

(3) On 11 August 2006, 6,793 shares of US$0.01 each were allotted and issued at par.

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

The share capital at 31 December 2004 shown on the consolidated balance sheet represented the additional capital contributed to NGC since 26 February 2004.

29. RESERVES OF THE COMPANY

	Share premium	Deemed capital contribution reserve	Accumulated losses	Total
	RMB '000	RMB '000	RMB '000	RMB '000
At date of incorporation	—	—	—	—
Loss for the period	—	—	(1)	(1)
At 31 December 2005	—	—	(1)	(1)
Issue of ordinary shares	10,892	—	—	10,892
Issued 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

The Company's reserves available for distribution to shareholders at 31 December 2006 amounted to RMB141,032,000 (2005: nil), being its share premium less accumulated losses at that date.

30. CONVERTIBLE BONDS

On 26 January 2006, the Company issued 5% convertible bonds ("CB") at a nominal value of USD28 million (approximately RMB219 million) to Development Partners Fund ("DPF"), Templeton Strategic Emerging Markets Fund II, LDC ("Templeton") and nine funds and/or sub-funds under the management of Value Partners Limited ("VPL Funds/Sub-Funds"), 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 into on 22 December 2006, DPF, Templeton and VPL Funds/Sub-Funds converted all of their CB of US$7,500,000, US$7,500,000 and US$13,000,000 into 10,319 shares, 10,319 shares and 17,885 shares of the Company, respectively. Upon the conversion of the CB, the original shareholders of the Company further executed a mandatory purchase agreement ("MPR Agreement") 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 (DPF, Templeton and VPL Funds/Sub-Funds) 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").

The movement of CB for the Relevant Periods is set out below:

	RMB'000
As at 26 February 2004, 31 December 2004 and 31 December 2005	—
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 investor to share of the Company	(162,833)
Deemed capital contribution from the original shareholder of the Company	(77,651)
Interest on CB	11,918
Interest payable to CB investors	(10,971)
As at 31 December 2006	—

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 determined 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 with registered office at Room 2703, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong. The inputs into the Binomial 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%

31. CAPITAL RESERVE

During the year ended 31 December 2005 and 31 December 2006, the Group acquired the additional equity interest of certain subsidiaries from a shareholder of the Company. The difference of RMB11,885,000 and RMB123,611,000 respectively between the total consideration and the net assets of certain subsidiaries at the acquisition date has been credited to capital reserve.

During the year ended 31 December 2006, the Group disposed of its subsidiary to a shareholder of the Company and former shareholder of NGC. The difference of RMB2,238,000 between the total consideration and the net assets of the subsidiary at the disposal date has been credited to capital reserve. Details are set out in note 35.

32. STATUTORY RESERVES

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 staff welfare.

In accordance with "Cai Qi 2006 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.

33. OTHER RESERVE

The other reserve arose on 26 February 2004 represents the net assets of NGC attributable to the founder shareholders of NGC when the founder shareholders obtained control of NGC. The subsequent movement represents the acquisition of additional equity interest in NGC and contributed to the Group by the founder shareholders of NGC.

34. ACQUISITION OF SUBSIDIARIES

On 1 March 2004, the Group acquired 95% equity interest in Yongte from Nanjing High Speed Gear Industrial Development Co, Ltd. ("NGID"), a former shareholder of NGC, for cash consideration of RMB865,000. The acquisition has been accounted for using the purchase method of accounting.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	Fair value adjustments	Fair value
	RMB '000	RMB '000	RMB '000
Net assets acquired:			
Property, plant and equipment	5,873	156	6,029
Available-for-sale investments	150	—	150
Inventories	4,654	192	4,846
Trade and other receivables	5,558	—	5,558
Bank balances and cash	10,111	—	10,111
Bank borrowings	(1,600)	—	(1,600)
Trade and other payables	(18,071)	—	(18,071)
Provision	(6,424)	6,424	—
	251	6,772	7,023
Minority interests			(30)
Discount on acquisition *(note)*			(6,128)
Total consideration satisfied by cash			865
Net cash inflow arising on acquisition:			
Cash consideration paid			(865)
Bank balances and cash acquired			10,111
			9,246

Note: The amount represents the cost savings on termination payments of Yongte. Yongte would have to pay the termination payments to its employees if it was wound up. However, upon the acquisition by the Group, the employees of Yongte were transferred to the Group's subsidiaries and no termination payments were required to be made.

On 8 November 2004, the Group acquired 40% equity interest in Nanjing Dongalloy from NGID, a former shareholder of NGC, for cash consideration of RMB1,953,000. Furthermore, on 24 November 2004, the Group acquired additional 12.61% equity interest in Nanjing Dongalloy from NGID for consideration of RMB1,095,000 in the form of reduction of payables to the Group.

The net assets acquired in the transaction are as follows:

	Acquiree's carrying amount before combination	Fair value adjustment	Fair value
	RMB '000	RMB '000	RMB '000
Net assets acquired:			
Property, plant and equipment	4,854	—	4,854
Inventories	886	—	886
Trade and other receivables	2,750	—	2,750
Bank balances and cash	1,697	—	1,697
Trade and other payables	(3,682)	—	(3,682)
	6,505	—	6,505
Minority interests			(3,083)
Discount on acquisition *(note)*			(374)
			3,048
Total consideration satisfied by:			
In form of reduction of other payables to the Group			1,095
Cash			1,953
			3,048
Net cash outflow arising on acquisition:			
Cash consideration paid			(1,953)
Bank balances and cash acquired			1,697
			(256)

Note: The amount represents bargain discount offered by the vendor.

The contribution of Yongte and Nanjing Dongalloy to the Group's turnover and profit before taxation for the period between the date of acquisition and 31 December 2004 is not significant.

If the acquisition had been completed on 26 February 2004, there is also no significant contribution to the Group's turnover and profit for the period from 26 February 2004 to 31 December 2004 from the newly acquired subsidiaries.

	Yongte At 1 March 2004	Nanjing Dongalloy At 24 November 2004	Total
	RMB '000	RMB '000	RMB '000
Total consideration satisfied by:			
Cash	865	1,953	2,818
In the form of reduction of other payables	—	1,095	1,095
	865	3,048	3,913
Net cash inflow (outflow) arising on acquisition:			
Cash consideration	(865)	(1,953)	(2,818)
Bank balances and cash acquired	10,111	1,697	11,808
	9,246	(256)	8,990

35. DISPOSAL OF A SUBSIDIARY

Pursuant to the relevant resolution dated 3 January 2006, the Company's subsidiary, Nanjing High Speed disposed of its entire equity interests of 66.7% in Nanjing Jingyuan Investment Co., Ltd. ("Jingyuan"), which is engaged in real estate business, a non principle subsidiary of the Group.

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

	3.1.2006
	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)
Contribution from shareholders credited to reserve *(note 31)*	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 3 January 2006 (the date on disposal of Jingyuan).

36. MAJOR NON-CASH TRANSACTIONS

Period from 26 February 2004 to 31 December 2004

(i) The Group disposed of its entire 40% equity interest in its associate, Nanjing Machinery Economic Development Company Limited to Nanjing Hongxin Venture Capital Co., Ltd, a related company. However, the proceeds of RMB15,500,000 were not yet received and recorded in other receivables. The consideration was settled on 30 May 2005.

(ii) The Group acquired an additional 12.61% equity interest of Nanjing Dongalloy for consideration of RMB1,095,000 in the form of reduction of payables to the Group.

Year ended 31 December 2005

The capital contribution of RMB1,500,000 from Goldwind Science & Technology Co., Ltd., the minority shareholder of Nanjing Wind Power, was injected in the form of technology know-how.

Year ended 31 December 2006

On 22 December 2006, the CB with a carrying amount of RMB239,537,000 were fully converted into shares of the Company and this resulted in an increase of RMB3,000 and RMB162,830,000 in share capital and share premium respectively.

37. CAPITAL COMMITMENTS

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the Financial Information	22,846	61,347	256,587

The Company did not have any significant capital commitments as at 31 December 2004, 2005 and 2006.

38. CONTINGENT LIABILITIES

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Guarantees given to banks in respect of banking facilities utilised by a third party	—	22,300	—

The Company did not have any significant contingent liabilities as at 31 December 2004, 2005 and 2006.

39. PLEDGE OF ASSETS

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

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Notes receivable	7,390	2,380	4,250
Bank deposits	100,991	148,013	192,779
	108,381	150,393	197,029

The Company did not have any significant pledge of assets as at 31 December 2004, 2005 and 2006.

40. OPERATING LEASES

	Period from 26 February 2004 to 31 December	Year ended 31 December	
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Minimum lease payments under operating lease recognised as an expense in the period/year	41	2,831	2,831

At respective balance sheet dates, the Group has outstanding commitments under non-cancellable operating lease, which fall due as follows:

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Within one year	45	1,031	1,031
In the second to fifth year inclusive	180	4,125	4,125
After five years	1,895	42,279	41,248
	2,120	47,435	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 renewed annually.

The Company did not have any significant operating lease commitments as at 31 December 2004, 2005 and 2006.

41. 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 were RMB10,990,000, RMB14,960,000 and RMB17,793,000 for the period from 26 February 2004 to 31 December 2004 and each of the two years ended 31 December 2006 respectively. All the contributions had been paid over to the scheme as at 31 December 2004, 31 December 2005 and 31 December 2006.

42. RELATED PARTY DISCLOSURES

(I) Name of and relationship with related companies are as follows:

Company	Relationship
Seabright China Special Opportunities (I) Limited ("SOF(I)") 光大海基中國特別機會基金	Shareholder
Nine funds and/or sub-funds under the management of Value Partners Limited ("VPL Funds/Sub-Funds")	Shareholder
Development Partners Fund ("DPF")	Shareholder
Templeton Strategic Emerging Markets Fund II, LDC ("Templeton")	Shareholder
Nanjing Lianxin Venture Capital Co., Ltd. ("Lianxin") 南京聯欣創業投資有限公司	Common beneficial shareholders (former shareholder of NGC)
Jiangsu Wenjing Science and Technology Co., Ltd. ("Wenjing") 江蘇文京科技有限公司	Common beneficial shareholders (former shareholder of NGC)
Jiangsu Yinxiang Estate Development Co., Ltd. ("Yinxiang") 江蘇銀祥房地產開發有限公司	Common beneficial shareholders (former shareholder of NGC)
Nanjing Union Strong Metallurgical Group Corporation ("Union") 南京聯強冶金(集團)有限公司	Common beneficial shareholders (former shareholder of NGC)
Nanjing High Speed Gear Industrial Development Co., Ltd. ("NGID") 南京高速齒輪產業發展有限公司	Common beneficial shareholders (former shareholder of NGC)
Nanjing Hongxin Venture Capital Co., Ltd. ("Hongxin") 南京宏欣創業投資有限公司	Common beneficial shareholders
Nanjing Yuhuatai District Saihong Bridge Street Office ("Nanjing Yuhuatai") 南京雨花區賽虹橋街道區辦事處	Holding company of minority shareholder of NGC
Goldwind Science & Technology Co., Ltd. ("Goldwind") 新疆金風科技股份有限公司 *(note)*	Minority shareholder of Nanjing Wind Power with 35% shareholding
Tianjin Xiandao Machinery and Electronics Co., Ltd. ("Xiandao") 天津市先導機電有限公司	Minority shareholder of Ningjiang with 49% shareholding
Dongfeng (Hangzhou) Heavy Forging Co., Ltd. ("Dongfeng") 東風(杭州)重型鑄鍛有限公司	Minority shareholder of Ningjiang with 7.5% of shareholding
Nanjing Saihong Industrial and Trading Co., Ltd. 南京賽虹工貿有限公司	Minority Shareholder of Ningkai with 16.63% of shareholding
高衛忠	Minority Shareholder of Shenyang Sales Co. with 25% shareholding
谷繼春	Minority Shareholder of Shenyang Sales Co. with 24% shareholding
袁包鋼	Minority Shareholder of Ningjing Wind Power with 10% shareholding
Other natural persons 其他自然人	Minority shareholders of NGC
Nanjing Dongalloy	Common beneficial shareholders before acquired by the Group

Note: Goldwind has ceased to be the minority shareholder of Nanjing Wind Power, a subsidiary of NGC since 30 December 2006.

(II) Related party transactions

Company	Transaction	Period from 26 February 2004 to 31 December	Year ended 31 December	
		2004	2005	2006
		RMB '000	RMB '000	RMB '000
Goldwind	Sales of goods	—	13,850	188,381
Nanjing Dongalloy	Sales of goods	502	—	—
	Purchase of materials	941	—	—
Xiandao	Purchase of materials	1,718	1,080	688
Nanjing Yuhuatai	Rental expenses	—	1,800	1,800

In the opinion of the directors, the above transactions were conducted on normal commercial terms and in the ordinary and usual course of the Group's business. Except for the rental with Nanjing Yuhuatai, all will be discontinued following the listing of the Company's shares on the Stock Exchange.

(III) Trade and other receivables

Included in trade and other receivables are trade balances with a related party as follows:

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Union	890	890	—

(IV) Trade and other payables

Included in trade and other payables are trade balances with related parties as follows:

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Xiandao	560	624	—
Goldwind	—	6,568	—
	560	7,192	—

(V) Amounts due from related parties

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Hongxin	15,500	—	—
NGID	8,048	5,403	677
Nanjing Yuhuatai	3,600	2,561	914
Xiandao	2,000	2,000	—
Dongfeng	—	75	—
Other natural persons	1,920	2,954	987
	31,068	12,993	2,578

The amounts due from related parties, which are non-trade and arise arising from funds transfer, are interest free, unsecured and recoverable within one year. Except for the balance with Nanjing Yuhuatai which will be released before the listing of the Company's Shares on the Stock Exchange, all remaining balances have already been released on or before March 2007.

(VI) Amounts due to related parties

	THE GROUP			THE COMPANY	
	As at 31 December			As at 31 December	
	2004	2005	2006	2005	2006
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
Hongxin	—	1,453	—	—	—
NGID	158	75,644	156	75,487	—
SOF(I)	—	9,604	—	9,604	—
Lianxin	—	44,761	—	44,761	—
Wenjing	—	2,054	—	2,054	—
Yingxiang	—	2,567	—	2,567	—
VPL Funds/Sub-Funds	—	—	5,093	—	5,093
DPF	—	—	2,939	—	2,939
Templeton	—	—	2,939	—	2,939
Other natural persons	—	41	—	—	—
	158	136,124	11,127	134,473	10,971

The amounts due to related parties, which are non-trade nature and arise from funds transfer, are interest free, unsecured and repayable on demand. Except for the balances with VPL Funds/Sub-Funds, DPF and Templeton in 2006 which will be released before the listing of the Company's Shares on the Stock Exchange, all remaining balances at 31 December 2006 have already been released in January 2007.

(VII) Guarantees from related parties

Bank borrowings guaranteed by NGID and its associate are as follows:

	As at 31 December		
	2004	2005	2006
	RMB '000	RMB '000	RMB '000
Short-term bank borrowings	121,000	139,000	—
Long-term bank borrowings	30,000	30,000	—
	151,000	169,000	—

(VIII) Acquisition of subsidiaries

(i) On 1 March 2004, the Group acquired 95% equity interest of Yongte from NGID, a former shareholder of NGC, for cash consideration of RMB865,000. Details of are set out in Note 34.

(ii) On 8 November 2004 and 24 November 2004, the Group acquired 40% and 12.61% equity interest of Nanjing Dongalloy respectively, from NGID, a former shareholder of NGC, for a cash consideration of RMB1,953,000 and consideration in the form of reduction of payables of RMB1,095,000 respectively. Details of are set out in Note 34.

(iii) During the year ended 31 December 2005 and 2006, the Group acquired the additional equity interest of certain subsidiaries from Lianxin for a total consideration of RMB35,467,000 and RMB8,141,000 respectively. Details of are set out in Note 31.

(IX) Disposal of a subsidiary and an associate

On 3 January 2006, the Group disposed of its entire equity interest of Jingyuan to NGID and Lianxin, for a cash consideration of RMB20,000,000. Details of are set out in Note 35.

On 25 September 2004, the Group disposed of its associate to Lianxin for a cash consideration of RMB15,500,000.

(X) Compensation of key management personnel

Other than the emolument paid to the director of the Company, who is also considered as the key management of the Group as set out in Note 10, the Group did not have any other significant compensation to key management personnel.

B. DIRECTORS' REMUNERATION

Save as disclosed in this respect, no remuneration was paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Relevant Periods.

C. SUBSEQUENT EVENTS

On 8 June 2007, shareholders' resolutions were passed to approve the matters set out in paragraph headed "Resolutions in writing of the shareholders of the Company passed on 8 June 2007" in Appendix VI to the Prospectus.

Saved as aforesaid, no other significant events took place subsequent to 31 December 2006.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by any companies in the Group in respect of any period subsequent to 31 December 2006.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

For illustrative purpose only, the financial information prepared in accordance with Rule 4.29 of the Listing Rules, is set out here to provide the prospective investors with further information about how the proposed listing might have affected the financial position of the Group after completion of the Global Offering. Although reasonable care has been exercised in preparing the said information, prospective investors who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a true picture of the actual results and financial position of the Group as at 31 December 2006 or at any future date or the earnings per Share of the Group for the year ending 31 December 2007 or any future period.

(A) UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group as at 31 December 2006 is based on the audited consolidated net tangible assets of the Group as at 31 December 2006, included in Appendix IB to this prospectus and adjusted as follow:

	Audited consolidated net tangible assets attributable to the equity holders of the parent as at 31 December 2006	Estimated net proceeds from the Global Offering	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the parent as at 31 December 2006	Unaudited pro forma adjusted net tangible assets attributable to the equity holders of the parent as at 31 December 2006 per Share
	RMB'000 (note 1)	RMB'000 (note 2)	RMB'000	RMB (note 3)
Based on an Offer Price of HK$5.38 per Share	497,122	1,442,385	1,939,507	1.62
Based on an Offer Price of HK$7.08 per Share	497,122	1,919,694	2,416,816	2.01

Notes:

(1) The audited consolidated net tangible assets attributable to the equity holders of the parent as at 31 December 2006 is compiled based on the accountants' report of the Group as at 31 December 2006, the text of which is set out in Appendix IB to this prospectus, which is based on the audited consolidated net assets attributable to the equity holders of the parent as at 31 December 2006 of RMB526,999,000 with an adjustment for intangible assets of RMB29,877,000 as of 31 December 2006.

(2) The estimated net proceeds from the offer of 300,000,000 new Shares are based on the Offer Price of HK$5.38 and HK$7.08 per Share, after deduction of the underwriting fees and other related expenses payable by the Company and assuming the translation of Hong Kong dollars to Renminbi with the exchange rate at HK$1.00 to RMB0.98. No account has been taken of the Shares which may be issued pursuant to any exercise of Over-allotment Option.

(3) The unaudited pro forma adjusted net tangible assets attributable to the equity holders of the parent as at 31 December 2006 is based on 1,200,000,000 Shares, being the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering but without taking into account any Shares which may fall to be issued upon exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate.

(B) UNAUDITED PRO FORMA FORECAST EARNINGS PER SHARE

Forecast consolidated profit attributable to equity holders of the parent *(notes 1 and 2)*	not less than RMB180 million
Unaudited pro forma forecast earnings per Share *(note 3)*	not less than RMB0.15

Notes:

1. The forecast consolidated profit attributable to equity holders of the parent for the year ending 31 December 2007 has been prepared on the bases and assumptions set out in Appendix III to this prospectus.

2. Our forecast consolidated profit attributable to equity holders of the parent for the year ending 31 December 2007 may not necessarily give any indication of, and should not be interpreted as a guidance of, our full year financial results for 2007. While the business and operations are generally not subject to any material seasonality, they have in the past been, and will continue to be, affected by a number of factors. For further details of such factors, please refer to the sections headed "Risk Factors" and "Financial Information — Significant factors affecting our results of operations" in this prospectus.

3. The calculation of the unaudited pro forma forecast earnings per Share is based on the forecast consolidated profit attributable to equity holders of the parent for the year ending 31 December 2007 and a total of 1,200,000,000 Shares (assuming the Shares in issue at the date of this prospectus and those Shares to be issued pursuant to the Capitalisation Issue and the Global Offering had been in issue on 1 January 2007 but without taking into account any Shares which may fall to be issued upon exercise of the Over-allotment Option or of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased by the Company pursuant to the Issuing Mandate and Repurchase Mandate). The forecast has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarised in the Accountants' Report, the text of which is set out in Appendix IB to this prospectus.

(C) REPORT FROM THE REPORTING ACCOUNTANTS

Deloitte.
德勤

ACCOUNTANTS' REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.

We report on the unaudited pro forma financial information of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed global offering of 300,000,000 new shares of US$0.01 each in the Company might have affected the financial information presented, for inclusion in Section A and Section B in Appendix II to the prospectus dated 20 June 2007 (the "Prospectus"). The basis of preparation of the unaudited pro forma financial information is set out in Appendix II to the Prospectus.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purpose of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

The unaudited pro forma financial information is for illustrative purpose only, based on the judgments and assumptions of the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2006 or any future date; or
- the earnings per share of the Group for the year ending 31 December 2007 or any future period.

Opinion

In our opinion:

a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

b) such basis is consistent with the accounting policies of the Group; and

c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

20 June 2007

The forecast of consolidated profit attributable to equity holders of the Company for the year ending 31 December 2007 is set out under "Forecast for the year ending 31 December 2007" in the section headed "Financial Information"

A. BASES

Our Directors have prepared the forecast consolidated profit attributable to equity holders of the Company for the year ending 31 December 2007 on the basis of the audited consolidated results for the year ended 31 December 2006, the unaudited consolidated results based on management accounts for the four months ended 30 April 2007 and a forecast of the consolidated results for the eight months ending 31 December 2007. The profit forecast has been prepared on a basis consistent in all material respects with the accounting policies we have presently adopted as set out in Note 3 of the Accountants' Report, the text of which is set out in Appendix IB of this prospectus and on the following principal assumptions:

1. Forecast of the Group's sales revenue for the eight months ending 31 December 2007 is based on the Group's sales orders from customers on hand as at 30 April 2007 and the Group's estimated new sales orders for 2007. The Group's new sales orders for 2007 are estimated based on the past records of orders of customers with the Group;

2. there will be no material change in existing political, legal or regulatory (including changes in legislation, laws or regulations, government policies or rules), fiscal, market or economic conditions in the PRC;

3. there will be no material change in inflation, interest rates or exchange rates from those prevailing as at the date of this prospectus;

4. there will be no material change in the bases or rates of taxation or duties in the PRC;

5. the Group's operation and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters or catastrophes, epidemics or serious accidents; and

6. the Group's operations and financial performance will not be materially and adversely impacted by any of the risk factors as set out in the section headed "Risk Factors" in this prospectus.

B. LETTERS

Set out below are texts of letters received by our directors from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of the Company, and from the Sponsor in connection with the estimate of the consolidated profit attributable to equity holders of the Company for the year ending 31 December 2007.

(a) Letter from Deloitte Touche Tohmatsu

Deloitte.
德勤

德勤 · 關黃陳方會計師行
香港金鐘道88號
太古廣場一座35樓

Deloitte Touche Tohmatsu
35/F One Pacific Place
88 Queensway
Hong Kong

20 June 2007

The Directors
China High Speed Transmission Equipment Group Co., Ltd.
Morgan Stanley Asia Limited

Dear Sirs,

We have reviewed the accounting policies adopted and calculations made in arriving at the forecast of the profit attributable to equity holders of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ending 31 December 2007, for which the directors of the Company (the "Directors") are solely responsible (the "Profit Forecast"), as set out in the prospectus dated 20 June 2007 issued by the Company (the "Prospectus"). The Profit Forecast is prepared based on the results shown in the unaudited management accounts of the Group for the four months ended 30 April 2007 and a forecast of the results of the Group for the remaining eight months of the year ending 31 December 2007.

In our opinion the Profit Forecast, so far as the accounting policies and calculations are concerned, has been properly compiled on the basis of the assumptions made by the Directors as set out on page III-1 of Appendix III to the Prospectus and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group as set out in our Accountants' Report of the financial information of the Group for the period from 26 February 2004 to 31 December 2004 and each of the two years ended 31 December 2006 as set out in Appendix IB to the Prospectus dated 20 June 2007.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

(b) Letter from Morgan Stanley Asia Limited

Morgan Stanley Asia Limited
30th Floor
Three Exchange Square
Central, Hong Kong

20 June 2007

The Directors
China High Speed Gear Transmission Equipment Co., Ltd.

Dear Sirs,

We refer to the forecast of the consolidated net profit attributable to equity holders of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") for the year ending 31 December 2007 (the "Profit Forecast") as set out in the prospectus issued by the Company dated 20 June 2007 (the "Prospectus").

We understand that the Profit Forecast has been prepared by the directors of the Company (the "Directors") based on the audited results of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") for the year ended 31 December 2006, the unaudited consolidated results based on management accounts of the companies now comprising the Group for the four months ended 30 April 2007 and a forecast of the consolidated results of the Group for the eight months ending 31 December 2007.

We have discussed with you the bases made by the Directors as set out in Appendix III to the Prospectus upon which the Profit Forecast has been made. We have also considered the letter dated 20 June 2007 addressed to yourselves and ourselves from Deloitte Touche Tohmatsu regarding the accounting policies and calculations upon which the Profit Forecast has been made.

On the basis of the information comprising the Profit Forecast and on the basis of the accounting policies and calculations adopted by you and reviewed by Deloitte Touche Tohmatsu, we are of the opinion that the Profit Forecast, for which you as the Directors are solely responsible, has been made after due and careful enquiry.

Yours faithfully,
For and on behalf of
Morgan Stanley Asia Limited
Terence F. Keyes
Managing Director

The following is the text of a letter and valuation certificates prepared for the purpose of incorporation in this prospectus received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of value of the property interests in the PRC as at 30 April 2007.

10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

20 June 2007

The Directors
China High Speed Transmission Equipment Group Co., Ltd.
Second Floor of Cayside
Harbour Drive
P.O. Box 30592 S.M.B.
Grand Cayman
Cayman Islands

Dear Sirs,

Instructions, Purpose & Date of Valuation

In accordance with your instructions for us to carry out market valuation of the property interests held by China High Speed Transmission Equipment Group Co., Ltd. (the "Company") or its subsidiaries (hereinafter referred to as "the Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the Group with our opinion of the value of such property interests as at 30 April 2007 (the "date of valuation").

Basis of Valuation

Our valuation of each of the property interests represents its market value which in accordance with The HKIS Valuation Standards on Properties of The Hong Kong Institute of Surveyors is defined as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Valuation Assumptions

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

In the course of our valuation of the property interests, which is situated in the PRC, we have assumed that transferable land use rights in respect of the property interests for a specific term at nominal annual land use fees have been granted and that any premium has already been fully settled. We have also assumed that the grantee or the user of the property interests has free and uninterrupted rights to use or to assign the property interests for the whole of the un-expired term as granted.

We have relied on the information given by the Group and the opinion of its PRC legal adviser, Jingtian & Gongcheng, regarding the title to the property interests in the PRC and the interests of the Group in the properties in the PRC. The status of titles and grant of major approvals and licences, in accordance with the information provided by the Group and the PRC legal opinion are set out in the notes in the valuation certificate.

No allowance has been made in our valuation for any charges, mortgages or amounts owing neither on the property interests nor for any expenses or taxation, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interests are free from encumbrances, restrictions and outgoing of an onerous nature, which could affect its value.

In valuing the property interests, we have complied with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and The HKIS Valuation Standards on Properties (First Edition 2005) published by The Hong Kong Institute of Surveyors.

Method of Valuation

In valuing Property Nos. 2, 7 and 9 of Group I, which is currently owned and occupied by the Group, we have adopted Direct Comparison Approach by making reference to comparable sales evidence as available in the relevant market.

In valuing Property Nos. 1, 3, 4-6, 8, 10 and 11 of Group I, which is currently owned and occupied by the Group and held by the Group under construction respectively, we have adopted the Depreciated Replacement Cost ("DRC") Approach in valuing the property interests. The DRC Approach requires a valuation of the market value of the land in its existing use and an estimate of the new replacement cost of the buildings and structures from which deductions are then made to allow for the age, condition and functional obsolescence. For the land portion, we have made reference to comparable sales evidence as available in the market, and we also take into account the Standard Price published by the relevant local Government department.

The property interests in Group II, which are leased by the Group, has no commercial value due to prohibition against assignment or sub-letting or otherwise due to the lack of substantial profit rents.

Source of Information

In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its legal adviser on PRC law and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, tenancy details, construction costs, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information supplied.

We would point out that the copies of documents provided to us are mainly complied in Chinese characters and the transliteration into English represents our understanding of the contents. We would therefore advise the Group to make reference to the original Chinese edition of the documents and consult its legal adviser regarding the validity and legality as well as the interpretation of the documents.

Title Investigation

We have been provided with extracts of documents in relation to the title to the property interests in the PRC. However, we have not searched the original documents to ascertain ownership or to verify any amendments which may not appear on the copies handed to us. In the course of our valuation, we have relied to a very considerable extent on the information given to us by the Group and its legal advisers on the PRC law. We have accepted advice given to us on such matters as planning approvals or statutory notice, easements, tenure, identification of properties, development schemes, construction costs, ancillary facilities costs within the properties, particulars of occupancy, tenancy details, site and floor areas, attributable interest of the Group in the properties and all other relevant matters.

Site Inspection

We have inspected the exteriors and, where possible, the interior of the property. However, no structural survey had been made and no tests had been carried out on any of the services. In the course of our inspection, we did note any serious defects. We are not, however, able to report whether the property is free of rot, infestation or any other structural defect. Moreover, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc. for the future development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. We have not been able to carry out detailed on-site measurements to verify the site and floor areas of the Property and we have assumed that the site and floor areas shown on the copies of documents handed to us are correct.

Currency

Unless otherwise stated, all sums stated in our valuation certificate are in Renminbi, the official currency of the PRC.

We enclosed herewith a summary of our valuation and our valuation certificate.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Andrew K.F. Chan
Registered Professional Surveyor (GP)
Registered China Real Estate Appraiser
MSc., M.H.K.I.S., M.R.I.C.S.
Director

Note: *Mr. Andrew Chan is a Registered Professional Surveyor who has over 19 years' of experience in the valuation of properties in the PRC.*

SUMMARY OF VALUATIONS

	Property	Capital value in existing state as at 30 April 2007 *RMB*	Attributable interest to the Group *%*	Capital value in existing state as at 30 April 2007 attributable to the Group *RMB*
Group I — Property interests held by the Group for owner occupation/development in the PRC				
1.	An industrial complex situated at No. 3 Youjia'ao, Xiaohang, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	5,822,000 *(note)*	100	5,822,000 *(note)*
2.	Unit 607, No. 1 Tianyuan Road East, Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	805,000	100	805,000
3.	An industrial building situated at Tianyin Avenue, Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	43,600,000	100	43,600,000

	Property	Capital value in existing state as at 30 April 2007 *RMB*	Attributable interest to the Group *%*	Capital value in existing state as at 30 April 2007 attributable to the Group *RMB*
4.	A vacant land situated at Nanjing Economic & Technological Development Zone, Qixia District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	No commercial value *(note)*	100	No commercial value *(note)*
5.	A vacant land situated at Nanjing Economic & Technological Development Zone, Qixia District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	No commercial value *(note)*	100	No commercial value *(note)*
6.	An industrial complex situated at Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed Gear Manufacturing Co., Ltd. 南京高速齒輪製造有限公司)	80,750,000	100	80,750,000

	Property	Capital value in existing state as at 30 April 2007 *RMB*	Attributable interest to the Group *%*	Capital value in existing state as at 30 April 2007 attributable to the Group *RMB*
7.	Unit 606, No. 1 Tianyuan Road East, Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed Gear Manufacturing Co., Ltd. 南京高速齒輪製造有限公司)	570,000	100	570,000
8.	An industrial complex under construction situated at the west of Rongguangda, north of No. 4 Road, east of Powell Road and south of an industrial factory, Mechanical & Electronic Industrial Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. 南京寧江齒輪箱製造有限公司)	20,000,000 *(note)*	100	20,000,000 *(note)*
9.	Unit 605, No. 1 Tianyuan Road East, Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. 南京寧江齒輪箱製造有限公司)	459,000	100	459,000

	Property	Capital value in existing state as at 30 April 2007 *RMB*	Attributable interest to the Group *%*	Capital value in existing state as at 30 April 2007 attributable to the Group *RMB*
10.	An industrial complex situated at Youfang Village, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC (Nanjing Ningkai Mechanical Co., Ltd. 南京寧凱機械有限公司)	No commercial value *(note)*	83.37	No commercial value *(note)*
11.	An industrial building and a workshop situated at No. 10 Gaokesan Road, Nanjing New & High Technology Industrial Development Zone, Pukou District, Nanjing City, Jiangsu Province, the PRC (Nanjing Dongalloy Machinery & Electronics Co., Ltd. 南京寧嘉機電有限公司)	No commercial value *(note)*	100	No commercial value *(note)*
		Sub-total:		152,006,000

Property	Capital value in existing state as at 30 April 2007 *RMB*	Attributable interest to the Group *%*	Capital value in existing state as at 30 April 2007 attributable to the Group *RMB*
Group II — Property interests leased by the Group in the PRC			
12. An industrial complex situated at Youjia'ao, Xiaohang, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC (Nanjing Yongte Gear Box Manufacturing Co., Ltd. 南京永特齒輪箱製造有限公司)	No commercial value	100	No commercial value
13. A commercial building in No. 20 Shenliao Road East, Tiexi District, Shenyang City, Liaoning Province, the PRC (Nanjing High Speed & Accurate Gear (Shenyang) Sales Co., Ltd. 南京高精齒輪(瀋陽)銷售有限公司)	No commercial value	75	No commercial value
	Sub-total:		No commercial value
	Grand-total:		152,006,000

Note:

No capital value has been included in the Summary of Valuations or the Valuation Certificate for the following properties (referring to those parts which are without title certificates) because the respective Certificate for the Use of State-owned Land or Building Ownership Certificate had not yet been obtained. However, in the Valuation Certificate we have stated in the notes to each of such properties (referring to those parts which are without title certificates) that on the assumption that the respective title certificate had been obtained, the capital value as at 30 April 2007 for such properties (referring to those parts which are without title certificates) are:

	Property (referring to those parts which are without title certificates)	**Capital value in existing state as at 30 April 2007** *RMB*	**Attributable interest to the Group** *%*	**Capital value in existing state as at 30 April 2007 attributable to the Group** *RMB*
1.	An industrial complex situated at No. 3 Youjia'ao, Xiaohang, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	41,530,000	100	41,530,000
4.	A vacant land situated at Nanjing Economic & Technological Development Zone, Qixia District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	1,360,000	100	1,360,000
5.	A vacant land situated at Nanjing Economic & Technological Development Zone, Qixia District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	5,360,000	100	5,360,000

	Property (referring to those parts which are without title certificates)	Capital value in existing state as at 30 April 2007 *RMB*	Attributable interest to the Group *%*	Capital value in existing state as at 30 April 2007 attributable to the Group *RMB*
8.	An industrial complex under construction situated at the west of Rongguangda, north of No. 4 Road, east of Powell Road and south of an industrial factory, Mechanical & Electronic Industrial Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. 南京寧江齒輪箱製造有限公司)	4,610,000	100	4,610,000
10.	An industrial complex situated at Youfang Village, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC (Nanjing Ningkai Mechanical Co., Ltd. 南京寧凱機械有限公司)	27,820,000	83.37	23,193,534
11.	An industrial building and a workshop situated at No. 10 Gaokesan Road, Nanjing New & High Technology Industrial Development Zone, Pukou District, Nanjing City, Jiangsu Province, the PRC (Nanjing Dongalloy Machinery & Electronic Co., Ltd. 南京寧嘉機電有限公司)	2,320,000	100	2,320,000
	Total:	83,000,000		78,373,534

VALUATION CERTIFICATE

Group I — Property interests held by the Group for owner occupation/development in the PRC

	Property	**Description and tenure**	**Particulars of occupancy**	**Capital value in existing state as at 30 April 2007**
1.	An industrial complex situated at No. 3 Youjia'ao, Xiaohang, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	The property comprises 20 blocks of industrial building erected upon four plots of land with a total site area of approximately 70,259.80 sq.m. (756,276 sq.ft.). The 19 buildings with certificates include 11 workshops, 2 warehouses, 2 power rooms, a R&D building and 3 office buildings erected on a leased site all completed from 1990's to 2003 with a total gross floor area of approximately 38,458.60 sq.m. (413,968 sq.ft.). As advised by the Group, a workshop under construction with a planned gross floor area of approximately 4,080 sq.m. (43,917 sq.ft.), is scheduled to be completed in 2007. We have not taken into account the said under-construction works in our valuation. The land use rights of part of the land of the property, comprising a site area of approximately 5,809.90 sq.m. (62,538 sq.ft.) have been granted for a term due to expire on 20 August 2052 for industrial use. The land use rights of the remaining land portion of the property, comprising a site area of approximately 64,449.90 sq.m. (693,739 sq.ft.) have been leased for a term of 50 years commencing from 11 January 2002 for industrial use.	Portion of the office building with a total gross floor area of 20 sq.m. (215 sq.ft.) is leased to Nanjing Ningtai Property Management Co., Ltd. for a term of 1 year from 1 January 2007 to 31 December 2007 at a monthly rent of RMB200. The remaining portion of the property is occupied by the Group for industrial use.	RMB5,822,000 (Please see note 4)

Notes:

(1) According to Certificate for the Use of State-owned Land No. (2006) 01973 issued by Nanjing Municipal People's Government dated 11 April 2006, the land use rights of part of the property, comprising a site area of approximately 5,809.90 sq.m., has been granted to Nanjing High Speed & Accurate Gear (Group) Co., Ltd. for a term due to expire on 20 August 2052 for industrial use.

(2) According to 3 Certificates for the Use of State-owned Land Nos. (2006) 05459, (2006) 05460 and (2006) 05461 issued by Nanjing Municipal People's Government dated 12 July 2006, the land use rights of 3 plots of land of the property, comprising a total site area of approximately 64,449.90 sq.m., have been leased to Nanjing High Speed & Accurate Gear (Group) Co., Ltd. due to expire on 10 January 2008 for industrial use.

(3) According to Lease Contract of State-owned Land Use Rights No. (2002) 001 entered into between Nanjing Municipal Land Resources Bureau ("Party A") and Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Party B") on 14 January 2002, the land use rights of 3 plots of land of the property, comprising a site total area of approximately 64,449.90 sq.m., have been leased to Party B for a term of 50 years commencing from 11 January 2002 for industrial use at an annual rental of RMB45,114.93.

(4) According to 7 Building Ownership Certificates Nos. 224518, 224519, 224520, 224521, 224522, 224523 and 229227 issued by Nanjing Municipal Housing Administrative Bureau dated 5 April 2006 and 23 August 2006 respectively, the building ownerships of 19 blocks of buildings of the property, comprising a total gross floor area of approximately 38,458.60 sq.m., have been vested in Nanjing High Speed & Accurate Gear (Group) Co., Ltd. for industrial use. The details are summarized as follows:

Certificate No.	Building Name	No. of Storey	Gross Floor Area
			(sq.m.)
224518	Power Room	1	176.80
224519	Workshop	1	1,083.13
224519	Office Building	4	1,075.00
224519	Workshop	1	913.75
224519	Workshop	3	238.65
224519	Workshop	1	1,365.50
224520	Power Room	1	71.39
224520	Workshop	1	6,036.03
224520	Workshop	1	2,973.15
224520	Office Building	2	322.08
224521	Workshop	1	4,753.37
224521	Workshop	3	863.31
224521	R&D Building	6	2,693.32
224521	Workshop	1	1,890.00
224521	Workshop	1	3,317.92
224522	Workshop	2	669.60
224523	Office Building	4	1,696.94
229227	Warehouse	1	2,457.50
229227	Warehouse	4	5,861.16
		Total:	38,458.60

The 19 buildings with certificates are erected on leased land. Hence, we have assigned no commercial value to the buildings. However, on the assumption that the buildings are situated on the granted land, the capital value of the buildings in existing state as at 30 April 2007, was RMB41,530,000.

In addition, according to our site inspection and the information advised by the Group, two buildings (named blocks 7 and 8 in Building Ownership Certificate No. 224518) with a total gross floor area of approximately 2,058.70 sq.m. have been demolished. In the course of our valuation, the two buildings have been excluded.

(5) According to Business License No. 008035 dated 28 August 2006, Nanjing High Speed & Accurate Gear (Group) Co., Ltd. was established as a foreign owned enterprise with a registered capital of RMB180,000,000 (with a paid-up capital of RMB180,000,000) for a valid operation period from 16 August 2001 to 15 August 2051.

(6) According to the PRC legal opinion:

(i) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. has obtained the land use rights of part of the property with a site area of approximately 5,809.90 sq.m. for a term due to expire on 20 August 2052 for industrial use;

(ii) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. has leased the land use rights of part of the land for a term of 50 years commencing from 11 January 2002 for industrial use with a site area of approximately 64,449.90 sq.m. The property is not subject to any mortgage and any other third party interests;

(iii) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. has obtained the building ownership of the property with a total gross floor area of approximately 38,458.60 sq.m.;

(iv) There is no legal impediment for Nanjing High Speed & Accurate Gear (Group) Co., Ltd. to obtain the Planning Permit for Construction Works and Permit for Commencement of Construction Works of the workshop with a gross floor area of 4,080 sq.m. under construction;

(v) The current use of the property complies with the approved use;

(vi) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. is entitled to use, transfer, lease and mortgage the 5,809.90 sq.m. land and the 38,458.60 sq.m. buildings with the residual term of its land use rights at no extra land premium payable to the government; and

(vii) Nanjing High Speed & Accurate Gear (Group) is entitled to use the 64,449.90 sq.m. leased land for 50 years from 11 January 2002 at an annual rental of RMB45,114.93.

(7) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Lease Contract of State-owned Land Use Rights	Yes
Building Ownership Certificates	Yes (for 19 buildings)
Planning Permit for Construction Works	No (for construction works)
Permit for Commencement of Construction Works	No (for construction works)
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
2.	Unit 607, No. 1 Tianyuan Road East, Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	The property comprises one unit on level 6 in a multi-storey building which was completed in 2004. The property has a gross floor area of approximately 207.35 sq.m. (2,232 sq.ft.). The land use rights of the property have been granted for a term due to expire on 9 March 2065 for residential use.	Portion of the property with a gross floor area of 20 sq.m. (215 sq.ft.) is leased to ZF Nanjing Marine Propulsion Co., Ltd. for a term of 1 year from 5 July 2006 to 4 July 2007. The remaining portion of the property is occupied by the Group for office use.	RMB805,000

Notes:

(1) According to Certificate for the Use of State-owned Land No. (2004) 06491 issued by Nanjing Municipal People's Government dated 1 July 2004, the land use rights of the property, comprising an apportioned site area of approximately 34.60 sq.m., has been granted to Nanjing High Speed & Accurate Gear Co., Ltd. (南京高精齒輪股份有限公司) (now known as Nanjing High Speed & Accurate Gear (Group) Co., Ltd.) for a term due to expire on 9 March 2065 for residential use.

(2) According to Building Ownership Certificate No. 01085067 issued by Jiangning Government dated 9 August 2004, the building ownership of the property, comprising a gross floor area of approximately 207.35 sq.m., has been vested in Nanjing High-speed & Accurate Gear Co., Ltd. (now known as Nanjing High Speed & Accurate Gear (Group) Co., Ltd.) for non-residential use.

(3) According to Business License No. 008035 dated 28 August 2006, Nanjing High Speed & Accurate Gear (Group) Co., Ltd. was established as a foreign owned enterprise with a registered capital of RMB180,000,000 (with a paid-up capital of RMB180,000,000) for a valid operation period from 16 August 2001 to 15 August 2051.

(4) According to the PRC legal opinion:

(i) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. has obtained the land use rights of the Property for a term due to expire on 9 March 2065 for residential use with a site area of approximately 34.60 sq.m.;

(ii) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. has obtained the building ownership of the property with a total gross floor area of approximately 207.35 sq.m.;

(iii) The current use of the property complies with the approved use; and

(iv) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. is entitled to use, transfer, lease and mortgage the property with the residual term of its land use rights at no extra land premium payable to the government.

(5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land . . . . Yes
Building Ownership Certificate . . . . Yes
Business License . . . . Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
3.	An industrial building situated at Tianyin Avenue, Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	The property comprises a 3-storey industrial building which was completed in 2006 erected upon a plot of land with a total site area of approximately 47,777.10 sq.m. (514,273 sq.ft.). The building has a total gross floor area of approximately 19,548.27 sq.m. (210,418 sq.ft.) The land use rights of the property have been granted for a term due to expire on 21 December 2055 for industrial use.	Portion of the property with a total gross floor area of 100 sq.m. (1,076 sq.ft.) is leased to Nanjing High Accurate Marine Equipment Co., Ltd. for a term of 3 years from 8 October 2006 to 8 October 2009 at a monthly rent of RMB1,000. The remaining portions of the property is currently occupied by the Group for industrial and office use.	RMB43,600,000

Notes:

(1) According to Certificate for the Use of State-owned Land No. (2006) 00336 issued by Nanjing Municipal People's Government dated 10 January 2006, the land use rights of the property, comprising a site area of approximately 47,777.10 sq.m., has been vested in Nanjing High Speed & Accurate Gear (Group) Co., Ltd. for a term due to expire on 21 December 2055 for industrial use.

(2) According to Grant Contract of State-owned Land Use Rights entered into between Jiangning Branch of Nanjing Municipal Land Recourses Bureau ("Party A") and Nanjing High Speed & Accurate Gear Co., Ltd. (now known as Nanjing High Speed & Accurate Gear (Group) Co., Ltd.) ("Party B") on 28 December 2005, the land use rights of the property, comprising a site area of approximately 47,777.10 sq.m., has been granted to Party B for a term of 50 years for industrial use at a total consideration of RMB8,599,878.

(3) According to Building Ownership Certificate No. JN00005401 issued by Nanjing Municipal Housing Administrative Bureau dated 14 February 2007, the building ownership of the property, comprising a gross floor area of approximately 19,548.27 sq.m., has been vested in Nanjing High Speed & Accurate Gear (Group) Co., Ltd. for industrial use.

(4) According to Business License No. 008035 dated 28 August 2006, Nanjing High Speed & Accurate Gear (Group) Co., Ltd. was established as a foreign owned enterprise with a registered capital of RMB180,000,000 (with a paid-up capital of RMB180,000,000) for a valid operation period from 16 August 2001 to 15 August 2051.

(5) According to the PRC legal opinion:

(i) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. has obtained the land use rights of the property for a term due to expire on 21 December 2055 for industrial use with a site area of approximately 47,777.10 sq.m.;

(ii) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. has obtained the building ownership of the property with a gross floor area of approximately 19,548.27 sq.m.;

(iii) The current use of the property complies with the approved use; and

(iv) Nanjing High Speed & Accurate Gear (Group) Co., Ltd. is entitled to use, transfer, lease and mortgage the property with the residual term of its land use rights at no extra land premium payable to the government.

(6) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Grant Contract of State-owned Land Use Rights	Yes
Building Ownership Certificate	Yes
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
4.	A vacant land situated at Nanjing Economic & Technological Development Zone, Qixia District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	The property comprises a vacant land with a site area of approximately 3,706.69 sq.m. (39,899 sq.ft.). The land use rights of the property have been granted for industrial use.	The property is currently vacant.	No commercial value (Please see note 1)

Notes:

(1) No commercial value has been assigned to the property because its title documents have not been obtained. However, on the assumption that all the title documents of the property have been obtained, the capital value of the property in existing state as at 30 April 2007, was RMB1,360,000.

(2) According to Transfer Contract of State-owned Land Use Rights entered into between 南京新港開發總公司 ("Party A") and Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Party B") on 15 September 2006, the land use rights of the property, comprising a site area of approximately 3,706.69 sq.m., has been transferred to Party B for industrial use at a total consideration of RMB667,200.

(3) According to Business License No. 008035 dated 28 August 2006, Nanjing High Speed & Accurate Gear (Group) Co., Ltd. was established as a foreign owned enterprise with a registered capital of RMB180,000,000 (with a paid-up capital of RMB180,000,000) for a valid operation period from 16 August 2001 to 15 August 2051.

(4) According to the PRC legal opinion, the transfer contract of State-owned Land Use Rights is effective and legally binding to both parties. There is no legal impediment for Nanjing High Speed & Accurate Gear (Group) Co., Ltd. to obtain the Certificate for the Use of State-owned Land of the property.

(5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	No
Transfer Contract of State-owned Land Use Rights	Yes
Building Ownership Certificates	N/A
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
5.	A vacant land situated at Nanjing Economic & Technological Development Zone, Qixia District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed & Accurate Gear (Group) Co., Ltd. 南京高精齒輪集團有限公司)	The property comprises a vacant land with a site area of approximately 14,604.50 sq.m. (157,203 sq.ft.). The land use rights of the property have been granted for a term of 50 years for industrial use.	The property is currently vacant.	No commercial value (Please see note 1)

Notes:

(1) No commercial value has been assigned to the property because its title documents have not been obtained. However, on the assumption that all the title documents of the property have been obtained, the capital value of the property in existing state as at 30 April 2007, was RMB5,360,000.

(2) According to Grant Contract of State-owned Land Use Rights No. (2007) 36 entered into between Nanjing Municipal Land Resources Bureau ("Party A") and Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Party B") on 8 February 2007, the land use rights of the property, comprising a site area of approximately 14,604.50 sq.m., has been granted to Party B for a term of 50 years for industrial use at a total consideration of RMB2,336,720.

(3) According to Business License No. 008035 dated 28 August 2006, Nanjing High Speed & Accurate Gear (Group) Co., Ltd. was established as a foreign owned enterprise with a registered capital of RMB180,000,000 (with a paid-up capital of RMB180,000,000) for a valid operation period from 16 August 2001 to 15 August 2051.

(4) According to the PRC legal opinion, there is no legal impediment for Nanjing High Speed & Accurate Gear (Group) Co., Ltd. to obtain the Certificate for the Use of State-owned Land of the property.

(5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	No
Grant Contract of State-owned Land Use Rights	Yes
Building Ownership Certificate	N/A
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
6.	An industrial complex situated at Jiangning Scientific Industrial Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed Gear Manufacturing Co., Ltd. 南京高速齒輪製造有限公司)	The property comprises 9 blocks of industrial buildings erected upon a plot of land with a total site area of approximately 124,353.60 sq.m. (1,338,542 sq.ft.). The 8 buildings with certificates include 3 workshops, 2 guard rooms, a sewage farm, a power room and a warehouse all completed in from 2001 to 2006 with a total gross floor area of approximately 33,833.03 sq.m. (364,179 sq.ft.). As advised by the Group, a workshop under construction with a planned gross floor area of approximately 31,496 sq.m. (339,023 sq.ft.), is scheduled to be completed in 2007. We have not taken into account the said under-construction works in our valuation. The land use rights of the property have been granted for a term due to expire on 21 December 2055 for industrial use.	The property is currently occupied by the Group for industrial use.	RMB80,750,000

Notes:

(1) According to Certificate for the Use of State-owned Land No. (2006) 12466 issued by Nanjing Municipal Government dated 24 August 2006, the land use rights of the property, comprising a site area of approximately 124,353.60 sq.m., have been vested in Nanjing High Speed Gear Manufacturing Co., Ltd. for a term due to expire on 21 December 2055 for industrial use.

(2) According to Grant Contract of State-owned Land Use Rights entered into between Jiangning Branch of Nanjing Municipal Land Resources Bureau ("Party A") and Nanjing High Speed Gear Manufacturing Co., Ltd. ("Party B") dated 28 December 2005, the land use rights of the property, comprising a site area of approximately 124,353.60 sq.m., has been granted to Party B for a term of 50 years for industrial use at a consideration of RMB22,383,648.

(3) According to Building Ownership Certificate No. JN00005403 and JN00005404 issued by Nanjing Municipal Housing Administrative Bureau dated 14 February 2007, the building ownership of the property, comprising a total gross floor area of approximately 33,338.03 sq.m., has been vested in Nanjing High Speed Gear Manufacturing Co., Ltd. for industrial use. The details are summarized as follows:

Certificate No.	Building Name	No. of Storey	Gross Floor Area (sq.m.)
JN00005403	Workshop	3	31,253.91
JN00005403	Sewage Farm	1	387.80
JN00005403	Warehouse	1	178.19
JN00005403	Power Room	1	151.29
JN00005403	Workshop	1	774.41
JD00005404	Workshop	1	936.86
JD00005404	Guard Room	1	107.64
JD00005404	Guard Room	1	42.93
		Total:	33,833.03

(4) According to Planning Permits for Construction Works No. (2006) 512 issued by Nanjing Jiangning District Planning Bureau dated 14 August 2006, the planning of the workshop with a total gross floor area of approximately 31,496 sq.m., conforms to the stipulation of the city planning and was permitted to be developed.

(5) According to Permit for Commencement of Construction Works No. (2006) 229 issued by Nanjing Jiangning District Construction Bureau dated 30 September 2006, the construction of a workshop was permitted to be commenced with a total gross floor area of approximately 31,496 sq.m. for industrial use.

(6) According to Business License No. 3201212300829 dated 24 October 2006, Nanjing High Speed Gear Manufacturing Co., Ltd. was established as a limited company with a registered capital of RMB101,000,000 (with a paid-up capital of RMB101,000,000) for a valid operation period from 8 July 2003 to 25 June 2053.

(7) According to the PRC legal opinions:

(i) According to Certificate for the Use of State-owned Land No. (2006) 12466 issued by Nanjing Municipal Government dated 24 August 2006, Nanjing High Speed Gear Manufacturing Co., Ltd. has obtained the land use rights of the property with a site area of approximately 124,353.60 sq.m. for a term due to expire on 21 December 2055 for industrial use. The property is not subject to any mortgage or any other third party interests;

(ii) Nanjing High Speed Gear Manufacturing Co., Ltd. has obtained the building ownership of part of the property with a total gross floor area of approximately 33,833.03 sq.m.;

(iii) The current use of the property complies with the approved use; and

(iv) Nanjing High Speed Gear Manufacturing Co., Ltd. is entitled to use, transfer, lease and mortgage the property with the residual term of its land use rights at no extra land premium payable to the government.

(8) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Grant Contract of State-owned Land Use Rights	Yes
Building Ownership Certificate	Yes (for 8 buildings)
Planning Permit for Construction Works	Yes
Permit for Commencement of Construction Works	Yes
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
7.	Unit 606, No. 1 Tianyuan Road East, Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing High Speed Gear Manufacturing Co., Ltd. 南京高速齒輪製造有限公司)	The property comprises one unit on level 6 in a multi-storey building which was completed in 2004. The property has a gross floor area of approximately 146.83 sq.m. (1,580 sq.ft.). The land use rights of the property have been granted for a term due to expire on 9 March 2065 for residential use.	Portion of the property with a total gross floor area of 20 sq.m. (215 sq.ft.) is leased to Nanjing High Accurate Wind Energy Transmission Equipment Co. Ltd. for a term of 1 year from 1 January 2007 to 31 December 2007 at a monthly rent of RMB200. The remaining portion of the property is occupied by the Group for office use.	RMB570,000

Notes:

(1) According to Certificate for the Use of State-owned Land No. (2004) 06490 issued by Nanjing Municipal People's Government dated 1 July 2004, the land use rights of the property, comprising an apportioned site area of approximately 24.50 sq.m., has been granted to Nanjing High Speed Gear Manufacturing Co., Ltd. for a term due to expire on 9 March 2065 for residential use.

(2) According to Building Ownership Certificate No. 01085066 issued by Jiangning Government dated 9 August 2004, the building ownership of the property, comprising a gross floor area of approximately 146.83 sq.m., has been vested in Nanjing High Speed Gear Manufacturing Co., Ltd. for non-residential use.

(3) According to Business License No.3201212300829 dated 24 October 2006, Nanjing High Speed Gear Manufacturing Co., Ltd. was established as a limited company with a registered capital of RMB101,000,000 (with a paid-up capital of RMB101,000,000) for a valid operation period from 8 July 2003 to 25 June 2053.

(4) According to the PRC legal opinion:

(i) Nanjing High Speed Gear Manufacturing Co., Ltd. has obtained the land use rights of the property for a term due to expire on 9 March 2065 for residential use with a site area of approximately 24.50 sq.m.;

(ii) Nanjing High Speed Gear Manufacturing Co., Ltd. has obtained the building ownership of the property with a gross floor area of approximately 146.83 sq.m.;

(iii) The current use of the property complies with the approved use; and

(iv) Nanjing High Speed Gear Manufacturing Co., Ltd. is entitled to use, transfer, lease and mortgage the property with the residual term of its land use rights at no extra land premium payable to the government.

(5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
8.	An industrial complex under construction situated at the west of Rongguangda, north of No. 4 Road, east of Powell Road and south of an industrial factory, Mechanical & Electronic Industrial Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. 南京寧江齒輪箱製造有限公司)	The property comprises an industrial complex under construction erected upon two plots of land with a total site area of approximately 85,670.28 sq.m. (922,155 sq.ft.). As advised by the Group, the industrial complex is scheduled to be completed in 2007. The planned gross floor area of the property has not been provided. We have not taken into account the said under-construction works in our valuation. The land use rights of 69,670.20 sq.m. (749,930 sq.ft.) site of the property have been granted for a term due to expire on 30 November 2056 for industrial use. The land use rights of 16,000.08 sq.m. (172,311 sq.ft.) site of the property has been agreed to grant for a term of 50 years for industrial use.	The property is currently under construction.	RMB20,000,000 (Please see note 2)

Notes:-

(1) According to Certificate for the Use of State-owned Land No. (2007) 07771 issued by Nanjing Municipal People's Government dated 18 April 2007, the land use rights of the property, comprising a site area of approximately 69,670.20 sq.m. has been vested to Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. for a term due to expire on 30 November 2056 for industrial use.

(2) We have valued the property with 69,670.20 sq.m. site which is issued with Certificate for the Use of State-owned Land. No commercial value has been assigned to the remaining portion of the property with a site area of 16,000.08 sq.m. because its title documents have not been obtained. However, on the assumption that all the title documents of the property have been obtained, the capital value of the remaining portion of the property in existing state as at 30 April 2007, was RMB4,610,000.

(3) According to Project Agreement of Nanjing Jiangning Scientific Park entered into between 南京江寧科學園發展有限公司 ("Party A") and Nanjing High Speed Gear Manufacturing Co., Ltd. ("Party B") on 2 March 2007, Part A has agreed to grant the land use rights of the property to Party B with a site area of approximately 16,000.08 sq.m. for a term of 50 years for industrial use at a total consideration of RMB1,920,000.

(4) According to Planning Permit for Construction Use of Land No. (2006) 253 and (2006) 300 issued by Nanjing Jiangning District Planning Bureau dated 6 December 2006 and 21 July 2006 respectively, the planning of the site of the property was permitted to be developed with a site area of approximately 103.80 mu and 24 mu for industrial use.

(5) According to Business License No. 007979 dated 19 June 2006, Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. was established as a joint venture enterprise with a registered capital of US$1,393,264 (with a paid-up capital of US$625,000) for a valid operation period from 26 November 2003 to 16 November 2053.

(6) According to the PRC legal opinion:

(i) According to Certificate for the Use of state-owned Land No. (2007)07771 issued by Nanjing Municipal People's Government dated 18 April 2007, the land use rights of the property, comprising a site area of approximately 69,670.20 sq.m. has been vested to Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. for a term due to expire on 30 December 2056;

(ii) There is no legal impediment for Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. and Nanjing High Speed Gear Manufacturing Co., Ltd. to obtain the certificate for the Use of State-owned Land of part of the property with a site area of 16,000.08 sq.m.;

(iii) Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. and Nanjing High Speed Gear Manufacturing Co., Ltd. will obtain Planning Permit for Construction Works and Permit for Commencement of Construction Works of the property without any legal impediment; and

(iv) Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. is entitled to use, transfer, lease and mortgage the property with the residual term of its land use rights at no extra land premium payable to the government.

(7) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes (part)
Grant Contract of State-owned Land Use Rights	No
Agreement	Yes
Planning Permit for Construction Use of Land	Yes
Planning Permit for Construction Works	No
Permit for Commencement of Construction Works	No
Building Ownership Certificates	N/A
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
9.	Unit 605, No. 1 Tianyuan Road East, Jiangning Scientific Park, Jiangning District, Nanjing City, Jiangsu Province, the PRC (Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. 南京寧江齒輪箱製造有限公司)	The property comprises one unit on level 6 in a multi-storey building which was completed in 2004. The property has a gross floor area of approximately 118.26 sq.m. (1,273 sq.ft.). The land use rights of the property have been granted for a term due to expire on 9 March 2065 for residential use.	The property is currently occupied by the Group for office use.	RMB459,000

Notes:

(1) According to Certificate for the Use of State-owned Land No. (2004) 06489 issued by Nanjing Municipal People's Government dated 1 July 2004, the land use rights of the property comprising an apportioned site area of approximately 19.70 sq.m. has been granted to Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. for a term due to expire on 9 March 2065 for residential use.

(2) According to Building Ownership Certificate No. 01085065 issued by Jiangning Government dated 9 August 2004, the building ownership of the property, comprising a gross floor area of approximately 118.26 sq.m., has been vested in Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. for non-residential use.

(3) According to Business License No. 007979 dated 19 June 2006, Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. was established as a joint venture enterprise with a registered capital of US$1,393,264 (with a paid-up capital of US$625,000) for a valid operation period from 26 November 2003 to 16 November 2053.

(4) According to the PRC legal opinion:

(i) Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. has obtained the land use rights of the property for a term due to expire on 9 March 2065 for residential use with a site area of approximately 19.70 sq.m.;

(ii) Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. has obtained the building ownership of the property with a gross floor area of approximately 118.26 sq.m.;

(iii) The current use of the property complies with the approved use; and

(iv) Nanjing Ningjiang Gear Box Manufacturing Co., Ltd. is entitled to use, transfer, lease and mortgage the property with the residual term of its land use rights at no extra land premium payable to the government.

(5) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	Yes
Building Ownership Certificate	Yes
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
10.	An industrial complex situated at Youfang Village, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC (Nanjing Ningkai Mechanical Co., Ltd. 南京寧凱機械有限公司)	The property comprises 12 blocks of industrial buildings erected on two plots of land with a total site area of 30,969.30 sq.m. (333,354 sq.ft.). The 9 buildings with certificates include 4 workshops, an office building, a guard room, a canteen, a toilet, and a power room all completed in 1990's with a total gross floor area of approximately 5,840.70 sq.m. (62,869 sq.ft.). The 3 buildings without certificates consist of temporary workshop with a total gross floor area of approximately 6,664 sq.m. (71,731 sq.ft.). As advised by the Group, these buildings will be demolished in the future. The land use rights of the property comprising a site area of 17,649.30 sq.m. (189,977 sq.ft.) have been granted for industrial use. The land use rights of the remaining land portion of the property, comprising a site area of approximately 13,320 sq.m. (143,376 sq.ft.) have been leased by the Group for a term for a term of 2 years from 1 January 2007 to 31 December 2008 for industrial use.	The property is currently occupied by the Group for industrial use.	No Commercial Value (83.37% interest attributable to the Group) (Please see note 4)

Notes:

(1) According to Contract of Temporary Land Use entered into Nanjing Ningkai Mechanical Co., Ltd. ("Party A") and 南京市雨花台區賽虹橋街道辦事處 ("Party B") on 13 February 2007, Party A has leased part of the land use rights of the property, comprising a total site area of approximately 13,320 sq.m. for a term of two years from 1 January 2007 to 31 December 2008 for industrial use at an annual rental of RMB1,030,000.

(2) The Certificate for the Use of State-owned Land is being applied for Nanjing Ningkai Mechanical Co., Ltd.

(3) According to 3 Building Ownership Certificates Nos. 211898, 211899, and 211900 issued by Nanjing Municipal Housing Administrator Bureau dated 1 November 2004, the building ownership of the property, comprising a total gross floor area of approximately 5,840.70 sq.m., has been vested in Nanjing Ningkai Mechanical Co., Ltd. with details as follows:

Certificate No.	Block No.	Building Name	No. of Storey	Gross Floor Area
				(sq.m.)
211898	6	Guard Room	1	25.80
211898	7	Office Building	1	275.40
211898	8	Canteen	1	177.20
211899	1	Toilet	1	160.70
211900	11	Industrial Building	1	373.20
211900	12	Industrial Building	1	3,160.10
211900	13	Industrial Building	1	341.30
211900	14	Guard Room	1	234.60
211900	15	Industrial Building	4	1,092.40
			Total:	5,840.70

According to our site inspection and the information advised by the Group, six buildings (named blocks 9 and 10 in Building Ownership Certificate No. 211898 and blocks 2-5 in Building Ownership Certificate No. 211899) with a total gross floor area of approximately 1,304.25 sq.m. have been demolished. In the course of our valuation, the six buildings have been excluded.

(4) The land use rights of the land with a site area of 17,649.30 sq.m. has not been obtained by the Group. As advised by the Group, the Certificate for the Use of State-owned Land is being applied. We noted that there are three temporary workshops with a total gross floor area of 6,664 sq.m. do not have valid Building Ownership Certificates. Hence, the Building Ownership Certificate of the said three temporary workshops cannot be applied yet. Moreover, the 9 buildings with certificates are also erected on the land with the Certificate for the Use of State-owned Land being applied. In the course of our valuation, no commercial value has been assigned to the land and the 12 buildings. However, on the assumption that all the title documents of the property have been obtained and the buildings are situated on the granted land, the capital value of the property in existing state as at 30 April 2007, was RMB27,820,000.

(5) According to Business License No. 3201141001375 issued on 25 October 2006, Nanjing Ningkai Mechanical Co., Ltd. was established as a limited company with a registered capital of RMB35,000,000 (with a paid-up capital of RMB35,000,000) for a valid operation period from 19 November 2002 to 18 November 2052.

(6) According to the PRC legal opinion:

(i) According to the Letter issued by Nanjing Municipal Yuhuatai District Land Resources Bureau on 1 March 2007, Nanjing Ningkai Mechanical Co., Ltd. has completed the land grant procedure. There is no legal impediment for Nanjing Ningkai Mechanical Co., Ltd. to obtain the Certificate for the Use of State-owned Land of part of the property;

(ii) Nanjing Ningkai Mechanical Co., Ltd. has obtained the temporary land use of the remaining part of the property for a term due to expire on 31 December 2008 for industrial use with a site area of approximately 13,320 sq.m.;

(iii) Nanjing Ningkai Mechanical Co., Ltd. has obtained the building ownership of part of the property with a gross floor area of approximately 5,840.70 sq.m.;

(iv) According to 3 Building Ownership Certificates Nos. 211898, 211899, and 211900 issued by Nanjing Municipal Housing Administrator Bureau dated 1 November 2004, the building ownership of the property, comprising a total gross floor area of approximately 5,840.70 sq.m., has been vested in Nanjing Ningkai Mechanical Co., Ltd.; and

(v) Nanjing Ningkai Mechanical Co., Ltd. is entitled to use the 13,320 sq.m. leased land for a term of 2 years from 1 January 2007 to 31 December 2008 at an annual rental of RMB1,030,000.

(7) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Contract of Temporary Land Use	Yes
Certificate for the Use of State-owned Land	No
Grant Contract of Stated-owned Land Use Rights	No
Building Ownership Certificates	Yes
Business License	Yes

VALUATION CERTIFICATE

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 30 April 2007
11.	An industrial building and a workshop situated at No. 10 Gaokesan Road, Nanjing New & High Technology Industrial Development Zone, Pukou District, Nanjing City, Jiangsu Province, the PRC (Nanjing Dongalloy Machinery & Electronics Co., Ltd. 南京寧嘉機電有限公司)	The property comprises an industrial building and a workshop on the ground floor of a multi-storey industrial building completed in 1998. The property has a total gross floor area of approximately 2,124 sq.m. (22,863 sq.ft.). The land use rights of the property are unspecified.	The property is currently occupied by the Group for industrial use.	No Commercial Value (Please see note 1)

Notes:

(1) No commercial value has been assigned to the property because its title documents have not been obtained. However, on the assumption that all the title documents of the property have been obtained, the capital value of the property in existing state as at 30 April 2007 was RMB2,320,000.

(2) According to Business License No. 3201002015582 dated 5 December 2005, Nanjing Dongalloy Machinery & Electronics Co., Ltd. was established as a limited company with a registered capital of RMB5,317,125 (with a paid-up capital of RMB5,317,125) for a valid operation period from 26 September 1994 to 25 September 2044.

(3) According to the PRC legal opinion, there is no legal impediment for Nanjing Dongalloy Machinery & Electronics Co., Ltd. to obtain Certificate for the Use of State-owned Land and Building Ownership Certificate of the property.

(4) In accordance with the PRC legal opinion and the information provided by the Group, the status of title and grant of major approvals and licenses are as follows:

Certificate for the Use of State-owned Land	No
Building Ownership Certificates	No
Business License	Yes

VALUATION CERTIFICATE

Group II — Property interests leased by the Group in the PRC

	Property	Description and tenancy particulars	Capital value in existing state as at 30 April 2007
12.	An industrial complex situated at Youjia'ao, Xiaohang, Yuhuatai District, Nanjing City, Jiangsu Province, the PRC (Nanjing Yongte Gear Box Manufacturing Co., Ltd. 南京永特齒輪箱製造有限公司)	The industrial complex comprises 8 industrial buildings, 3 office buildings, 3 warehouses and an eatery all completed in about 1960's. The property has a total gross floor area of approximately 7,095 sq.m. (76,371 sq.ft.) and is currently occupied by the Group for industrial use. The property is leased to Nanjing Yongte Gearbox Manufacturing Co., Ltd. for a term of 1 year from 1 January 2007 to 31 December 2007 at an annual rental of RMB550,000.	No Commercial Value

Note:

(1) The property is leased to Nanjing Yongte Gear Box Manufacturing Co., Ltd. from Nanjing High-speed Gear Industrial Development Co., Ltd. (南京高速齒輪產業發展有限公司), a connected party of the Group.

(2) According to the PRC legal opinion, the Property Tenancy Contract is valid, legally binding to both parties and is complied with the PRC law. The property is currently under the leased registration process. However, it would not affect the enforcement of the contract.

VALUATION CERTIFICATE

	Property	Description and tenancy particulars	Capital value in existing state as at 30 April 2007
13.	A commercial building in No. 20 Shenliao Road East, Tiexi District, Shenyang City, Liaoning Province, the PRC (Nanjing High Speed & Accurate Gear (Shenyang) Sales Co., Ltd. 南京高精齒輪(瀋陽)銷售有限公司)	The property comprises a whole 4-storey commercial building. The property has a total gross floor area of approximately 495.03 sq.m. (5,329 sq.ft.) and is currently occupied by the Group for sales use. The property is leased to Nanjing High Speed & Accurate Gear (Shenyang) Sales Co., Ltd. for a term of one year from 1 January 2007 to 31 December 2007 at an annual rental of RMB132,000.	No Commercial Value

Note:

(1) The property is leased to Nanjing High Speed & Accurate Gear (Shenyang) Sales Co., Ltd. from Wu Hai'ou (吳海鷗), an independent party of the Group.

(2) According to the PRC legal opinion, the Property Tenancy Contract is valid, legally binding to both parties and is complied with the PRC law. The property is currently under the leased registration process. However, it would not affect the enforcement of the contract.

Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 under the Companies Law. The Memorandum and the Articles comprise its constitution.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1. Memorandum of Association

The Memorandum of Association was adopted on 8 June 2007 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the address specified in Appendix VII in the section headed "Documents available for inspection".

2. Articles of Association

The Articles of Association were adopted on 8 June 2007 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is US$30,000,000 divided into 30,000,000,000 shares of US$0.01 each.

2.2 *Directors*

2.2.1 *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the Directors, who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing Shares or attaching to any class of Shares, any Share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law and to any special rights conferred on any shareholders or attaching to any class of Shares, any Share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

2.2.2 *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

2.2.3 *Compensation or payment for loss of office*

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

2.2.4 *Loans to Directors*

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Hong Kong Companies Ordinance.

2.2.5 *Financial assistance to purchase Shares*

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

2.2.6 *Disclosure of interest in contracts with the Company or any of its subsidiaries*

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

any proposal concerning an offer of Shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in five per cent. or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

(i) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit; or

(ii) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;

any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

2.2.7 *Remuneration*

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

2.2.8 *Retirement, appointment and removal*

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

(1) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;

(2) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;

(3) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

(4) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or

(5) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, 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. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

2.2.9 *Borrowing powers*

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

2.2.10 *Proceedings of the Board*

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Subject to paragraph 2.2.8(f) above, questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

2.3 A resolution in writing signed by each and every one of the Directors (or their respective alternates) shall be as valid and effectual as if it had been passed at a meeting of the Board duly convened and held and may consist of several documents in like form each signed by one or more of the Directors or alternate Directors.

2.4 ***Alteration to constitutional documents***

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.5 ***Variation of rights of existing shares or classes of Shares***

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of Shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the Shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall mutatis mutandis apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued Shares of that class, and that any holder of Shares of the class present in person(or in the case of corporation, by its duly authorised representative) or by proxy may demand a poll.

The special rights conferred upon the holders of Shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

2.6 ***Alteration of Capital***

The Company in general meeting may, from time to time, whether or not all the Shares for the time being authorised shall have been issued and whether or not all the Shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new Shares, such new capital to be of such amount and to be divided into Shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

2.6.1 consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid shares and division into Shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;

2.6.2 cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and

2.6.3 sub-divide its Shares of any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.7 ***Special resolution — majority required***

A "special resolution" is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an "ordinary resolution" is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.8 ***Voting rights (generally, on a poll and right to demand a poll)***

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded by:

2.8.1 the chairman of the meeting; or

2.8.2 at least five members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote; or

2.8.3 any member or members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meetings; or

2.8.4 any member or members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.9 ***Annual general meetings***

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.10 ***Accounts and audit***

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 ***Notice of meetings and business to be conducted thereat***

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the Shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

(a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and

(b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95 per cent. in nominal value of the Shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

(1) the declaration and sanctioning of dividends;

(2) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;

(3) the election of Directors in place of those retiring;

(4) the appointment of auditors;

(5) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;

(6) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20 per cent. (or such other percentage as may from time to time be specified in the Listing Rules) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (g) below; and

(7) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.12 ***Transfer of Shares***

Transfers of Shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any Share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any Shares unless:

(a) the instrument of transfer is lodged with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;

(b) the instrument of transfer is in respect of only one class of Shares;

(c) the instrument of transfer is properly stamped (in circumstances where stamping is required);

(d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;

(e) the Shares concerned are free of any lien in favour of the Company; and

(f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any Share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 ***Power of the Company to purchase its own Shares***

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

2.14 ***Power of any subsidiary of the Company to own Shares***

There are no provisions in the Articles of Association relating to the ownership of Shares by a subsidiary.

2.15 ***Dividends and other methods of distributions***

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any Shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a Share in advance of calls shall be treated as paid up on the Share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of Shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 ***Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 ***Calls on Shares and forfeiture of Shares***

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their Shares (whether on account of the nominal amount of the shares or by way of premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a Share shall be jointly and severally liable to pay all calls and instalments due in respect of such Share or other moneys due in respect thereof.

If a sum called in respect of a Share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15 per cent. per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any Share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the Shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any Share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited Share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose Shares have been forfeited shall cease to be a member of the Company in respect of the forfeited Shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the Shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15 per cent. per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the Shares forfeited, at the date of forfeiture.

2.18 ***Inspection of register of members***

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members (including the branch register) kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.19 ***Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

The quorum for a separate general meeting of the holders of a separate class of Shares of the Company is described in sub-paragraph 2.4 above.

2.20 ***Rights of minorities in relation to fraud or oppression***

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 ***Procedure on liquidation***

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 ***Untraceable members***

The Company shall be entitled to sell any Shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the Shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

2.23 Every certificate for shares or debentures or representing any other form of security of the Company shall be issued under the seal of the Company, which shall only be affixed with the authority of the Board.

SUMMARY OF THE COMPANY LAWS AND TAXATION

1. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the "share premium account". At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

(a) paying distributions or dividends to members;

(b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;

(c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

(d) writing-off the preliminary expenses of the company;

(e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and

(f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Harbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

(a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;

(b) all sales and purchases of goods by the company; and

(c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75 per cent. in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90 per cent. of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16. Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18. Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

20. General

Maples and Calder the Company's legal advisers on Cayman Islands law, have sent to the Company a letter of advice summarising aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the section headed "Documents available for inspection" in Appendix VII. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he/she is more familiar is recommended to seek independent legal advice.

A. FURTHER INFORMATION ABOUT THE COMPANY

1. Incorporation

Our Company was incorporated in the Cayman Islands under the Companies Law as an exempted company with limited liability on 22 March 2005. The Company has established a place of business in Hong Kong at 36/F., Far East Finance Centre, 16 Harcourt Road, Hong Kong and has been registered as an overseas company in Hong Kong under Part XI of the Hong Kong Companies Ordinance. Mr. Lui Wing Hong, Edward of Flat E, 7/F, Block 5, Grand Palisades, 8 Shan Yin Road, Tai Po, Hong Kong has been appointed as the authorised representative of our Company for the acceptance of service of process and notices on behalf of the Company in Hong Kong.

As our Company is incorporated in the Cayman Islands, it operates subject to the Companies Law and to its constitution, which comprises the Memorandum and the Articles. A summary of various provisions of the constitution of our Company and relevant aspects of the Companies Law is set out in Appendix V to this prospectus.

2. Changes in the share capital of the Company

The authorised share capital of our Company as at the date of its incorporation was US$900,000 divided into 90,000,000 Shares of US$0.01 each. On 22 March 2005, one Share was allotted and issued at par, credited as fully paid, to the subscriber to the Memorandum and Articles and such Share was subsequently transferred to Mr. Siu Sing Foon on the same day.

On 22 March 2005, 28,007.5494 Shares, 58,705.5891 Shares, 9,582.8816 Shares, 1,851.4899 Shares, 1,481.1924 Shares and 370.2976 Shares were allotted and issued at par, credited as fully paid, to Mr. Siu Sing Foon, Fortune Apex, Luckever, Maxjoy, Golden Step and Wiaearn respectively.

On 28 November 2005, pursuant to six instruments of transfer all dated 28 November 2005:

(a) Mr. Siu Sing Foon transferred 16,228.1184 Shares and 4,596.431 Shares to Luckever and Wiaearn respectively for a consideration of US$1;

(b) Mr. Siu Sing Foon transferred 7,184 Shares to SOF(I) at par for a total consideration of US$71.84;

(c) Fortune Apex transferred 4,908.2714 Shares, 56.5101 Shares and 44.8076 Shares to Wiaearn, Maxjoy and Golden Step respectively for a consideration of US$1.

On 29 June 2006, SOF(I) transferred 216 Shares in the Company to Forebright for a consideration of US$150,000.

As part of the Reorganisation, on 11 August 2006, our Company issued and allotted 6,793 Shares of US$0.01 each to Wise-Win for a consideration of US$1,390,000.

Pursuant to the conversion agreement dated 22 December 2006, the outstanding Convertible Bonds in the name of the Pre-IPO Investors were converted into Shares of the Company. DPF, Templeton and VPL Funds/Sub-Funds converted all their Convertible Bonds into 10,319 Shares, 10,319 Shares and 17,885 Shares respectively.

Pursuant to an agreement dated 22 December 2006 between the Pre-IPO Investors and the then existing Shareholders (namely, Fortune Apex, Golen Step, Maxjoy, Wiaearn, Luckever, Wise-Win, SOF(I) and Forebright), each of the Pre-IPO Investors transferred to Fortune Apex, Luckever, Maxjoy, Golden Step, Wiaearn and Wise-Win ("Grantors") 4,010 Shares ("MPR Consideration Shares") on 22 December 2006 pursuant to the terms and conditions of such agreement. In consideration of such transfer, the Grantors severally granted to each of the Pre-IPO Investors a mandatory purchase right to require the Grantors to purchase the Shares held by the Pre-IPO Investors in accordance with the terms and conditions thereof. The following table sets out the breakdown of the transfer of 4,010 MPR Consideration Shares:

No.	Name of Shareholders	Number of MPR Consideration Shares transferred to the Grantors	Number of MPR Consideration Shares transferred by the Pre-IPO Investors
1.	Fortune Apex	2,288	DPF: 613 Templeton: 613 VPL Funds/Sub-Funds: 1,062
2.	Golden Step	57	DPF: 15 Templeton: 15 VPL Funds/Sub-Funds: 27
3.	Maxjoy	71	DPF: 19 Templeton: 19 VPL Funds/Sub-Funds: 33
4.	Wiaearn	370	DPF: 99 Templeton: 99 VPL Funds/Sub-Funds: 172
5.	Luckever	970	DPF: 260 Templeton: 260 VPL Funds/Sub-Funds: 450
6.	Wise-Win	254	DPF: 68 Templeton: 68 VPL Funds/Sub-Funds: 118

On 12 January 2007, Value Partners Limited Partnership (certificate of cancellation of domestic limited liability partnership in the state of Connecticut of the United States of America filed on January 23, 2007), being one of the VPL Funds/Sub-Funds, transferred 3,823 Shares to Value Partners Asia Fund, LLC for a consideration of US$3,546,215.95. Both Value Partners Limited Partnership (certificate of cancellation of domestic limited liability partnership in the state of Connecticut of the United States of America filed on January 23, 2007) and Value Partners Asia Fund, LLC are under the management of Value Partners Limited.

Pursuant to a share subscription agreement dated 8 February 2007, 7,648 Shares were allotted to GE Capital, representing approximately 5% of the total issued share capital of our Company as enlarged by such issue and allotment to GE Capital.

On 8 June 2007, the authorised share capital of our Company was increased from US$900,000 divided into 90,000,000 Shares of US$0.01 each to US$30,000,000 divided into 3,000,000,000 Shares of US$0.01 each.

Upon satisfaction of all conditions to the Capitalisation Issue as referred to in the paragraph headed "Resolutions in writing of the shareholders of the Company passed on 8 June 2007" below, the Company will, prior to the Listing, issue and allot 899,847,036 Shares to the then existing Shareholders of the Company in proportion to their then existing shareholdings in the Company credited as fully paid up at par by way of a capitalisation of an amount of US$8,998,470.36 standing to the credit of the share premium account of the Company.

Immediately following completion of the Global Offering and the Capitalisation Issue without taking into account any shares which may be allotted and issued pursuant to the exercise of Over-allotment Option or any options which may be granted under the Share Option Scheme, the issued share capital of the Company will be 12,000,000 divided into 1,200,000,000 Shares of US$0.01 each, all fully paid or credited as fully paid, and 1,800,000,000 Shares will remain unissued.

Other than pursuant to the exercise of the Over-allotment Option and the exercise of any options which may be granted under the Share Option Scheme, there is no current intention to issue any of the authorised but unissued share capital of the Company.

Save for aforesaid and as mentioned in the paragraph headed "Resolutions in writing of the shareholders of the Company passed on 8 June 2007" below, there has been no alteration in the share capital of the Company since its incorporation.

3. Resolutions in writing of the shareholders of the Company passed on 8 June 2007

Pursuant to the resolutions in writing passed by the shareholders of our Company on 8 June 2007 conditional on (i) the Listing Committee of the Stock Exchange granting the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus (including any additional Shares which may be issued pursuant to the exercise of the Over-allotment Option or options which may be granted under the Share Option Scheme) and (ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional and not being terminated in accordance with the terms therein or otherwise, in each case on or before such dates as may be specified in the Underwriting Agreements:

(i) the Global Offering was approved and the Directors were authorised to allot and issue the new Shares under the Global Offering;

(ii) the Over-allotment Option was approved and the Directors were authorised to effect the same and to allot and issue the Over-allotment Shares upon the exercise of the Over-allotment Option;

(iii) the Share Option Scheme, the principal terms of which are set out in the paragraph headed "1. Share Option Scheme" under the section headed "D. Other information" in this Appendix, were approved and adopted and the Directors were authorised to grant options to subscribe for Shares thereunder and to allot, issue and deal with Shares pursuant to the exercise of options granted under the Share Option Scheme;

(iv) the Directors were authorised to issue and allot 899,847,036 Shares to the then existing Shareholders of the Company in proportion as nearly as possible without involving any fractional Shares to their then existing shareholdings in the Company credited as fully paid up at par by way of a capitalisation of an amount of US$8,998,470.36 standing to the credit of the share premium account of the Company;

(v) a general unconditional mandate was given to the Directors to allot, issue and deal with (including the power to make or grant offers, agreements, options and other rights, and issue warrants and other securities which would or might require Shares to be allotted and issued), otherwise than pursuant to a rights issue or pursuant to any scrip dividend scheme or similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the Articles or pursuant to the grant of options under the Share Option Scheme or other similar arrangement or pursuant to a specific authority granted by the Shareholders in general meeting, unissued Shares with an aggregate nominal value not exceeding 20% of the aggregate of the total nominal amount of the share capital of the Company in issue, as enlarged by the Global Offering and the Capitalisation Issue (but excluding any share capital of the Company which may be issued pursuant to the Over-allotment Option), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

(vi) a general unconditional mandate was given to the Directors authorising them to exercise all powers of the Company to repurchase on the Stock Exchange or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose such number of Shares as will represent up to 10% of the aggregate nominal amount of the share capital of the Company in issue, as enlarged by the Global Offering and the Capitalisation Issue (but excluding any share capital of the Company which may be issued pursuant to the Over-allotment Option), such mandate to remain in effect until the conclusion of the next annual general meeting of the Company, or the expiration of the period within which the next annual general meeting of the Company is required by the Articles or any applicable laws to be held, or until revoked or varied by an ordinary resolution of the Shareholders in general meeting, whichever occurs first;

(vii) the general unconditional mandate mentioned in paragraph (v) above was extended by the addition to the aggregate nominal amount of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to or in accordance with such mandate of an amount representing the aggregate nominal amount of the Shares in the capital of the Company purchased by the Company pursuant to the mandate to repurchase Shares referred to in paragraph (vi) above; and

(viii) a new Memorandum and Articles of Association was approved and adopted.

4. Corporate reorganisation

The companies comprising the Group underwent a reorganisation in preparation for the listing of the Shares on the Stock Exchange. The reorganisation involved the following:

(1) on 22 March 2005, the Company was incorporated in the Cayman Islands;

(2) following the transfer of Shares on 28 November 2005 as described in the paragraph headed "Changes in the share capital of the Company" in this Appendix, the Company was at that time owned by Fortune Apex as to 53.696%, Luckever as to 25.811%, Maxjoy as to 1.908%, Golden Step as to 1.526%, Wiaearn as to 9.875% and SOF(I) as to 7.184% respectively. All the then Shareholders of our Company are BVI companies. Those BVI companies were established by the original beneficial shareholders of NGC whose shareholdings in such BVI companies represented their respective attributable interests in NGC immediately before our Company's acquisition of equity interest in NGC on 26 December 2005;

(3) pursuant to an equity transfer agreement dated 26 December 2005, our Company acquired an approximately 51.0813% equity interest in NGC from NGID for a consideration of RMB74,785,130;

(4) pursuant to an equity transfer agreement dated 26 December 2005, our Company acquired an approximately 30.2889% equity interest in NGC from Lianxin for a consideration of RMB44,344,160;

(5) pursuant to an equity transfer agreement dated 26 December 2005, our Company acquired an approximately 1.737% equity interest in NGC from Yinxiang for a consideration of RMB2,543,030;

(6) pursuant to an equity transfer agreement dated 26 December 2005, our Company acquired an approximately 1.3896% equity interest in NGC from Wenjing for a consideration of RMB2,034,410;

(7) pursuant to an equity transfer agreement dated 26 December 2005, our Company acquired an approximately 6.5403% equity interest in NGC from SOF(I) for a consideration of RMB9,579,300;

(8) pursuant to two equity transfer agreements both dated 23 June 2006, Wise-Win acquired an approximately 3.4045% equity interest and an approximately 2.7792% equity interest in NGC from Jiangsu VC and Suzhou VC respectively for a consideration of RMB13,798,004 and RMB11,263,743;

(9) pursuant to an equity transfer agreement dated 12 August 2006, our Company acquired an approximately 6.1837% equity interest in NGC from Wise-Win for a consideration of US$1,390,000 and pursuant to a share allotment agreement dated 11 August 2006, our Company issued and allotted 6,793 Shares to Wise-Win for a consideration of US$1,390,000;

(10) pursuant to an equity transfer agreement dated 19 June 2006, Lianxin acquired an approximately 2.7792% equity interest in NGC from Union Strong for a consideration of RMB13,000,000;

(11) pursuant to an equity transfer agreement dated 12 August 2006, our Company acquired an approximately 2.7792% equity interest in NGC from Lianxin for a consideration of RMB13,000,000;

(12) pursuant to a conversion agreement dated 22 December 2006, DPF, Templeton and VPL Funds/Sub-Funds converted all their Convertible Bonds into 10,319 Shares, 10,319 Shares and 17,885 Shares respectively;

(13) pursuant to an agreement dated 22 December 2006 between the Pre-IPO Investors and the then existing Shareholders (namely, Fortune Apex, Golden Step, Maxjoy, Wiaearn, Luckever, Wise-Win, SOF(I) and Forebright), each of the Pre-IPO Investors transferred to Fortune Apex, Luckever, Maxjoy, Golden Step, Wiaearn and Wise-Win ("Grantors") 4,010 Shares ("MPR Consideration Shares") on 22 December 2006 pursuant to the terms and conditions of such agreement. In consideration of such transfer, the Grantors severally granted to each of the Pre-IPO Investors a mandatory purchase right to require the Grantors to purchase the Shares held by the Pre-IPO Investors in accordance with the terms and conditions thereof. The following table sets out the breakdown of the transfer of 4,010 MPR Consideration Shares:

No.	Name of Shareholders	Number of MPR Consideration Shares transferred to the Grantors	Number of MPR Consideration Shares transferred by the Pre-IPO Investors
1.	Fortune Apex	2,288	DPF: 613 Templeton: 613 VPL Funds/Sub-Funds: 1,062
2.	Golden Step	57	DPF: 15 Templeton: 15 VPL Funds/Sub-Funds: 27
3.	Maxjoy	71	DPF: 19 Templeton: 19 VPL Funds/Sub-Funds: 33
4.	Wiaearn	370	DPF: 99 Templeton: 99 VPL Funds/Sub-Funds: 172
5.	Luckever	970	DPF: 260 Templeton: 260 VPL Funds/Sub-Funds: 450
6.	Wise-Win	254	DPF: 68 Templeton: 68 VPL Funds/Sub-Funds: 118

(14) pursuant to a share subscription agreement dated 8 February 2007, our Company allotted 7,648 Shares to GE Capital, representing approximately 5% of the total issued share capital of our Company as enlarged by such issue and allotment to GE Capital.

5. Changes in share capital of subsidiaries

Our Company's subsidiaries are referred to in the Accountants' Report, the text of which is set out in Appendix IB to this prospectus. The following sets out the changes to the share capital of the subsidiaries of our Company during the two years preceding the date of this prospectus:

(a) NGC

(i) On 27 October 2005, pursuant to a capital increase agreement signed in September 2005, the registered capital of NGC was increased to RMB101,537,300 and was owned as to approximately 51.0813% by NGID, as to approximately 35.0366% by Lianxin, as to approximately 3.4045% by Jiangsu VC, as to approximately 2.7792% by Suzhou VC, as to approximately 2.7792% by Union Strong, as to approximately 1.7370% by Yinxiang, as to approximately 1.3896% by Wenjing and as to approximately 1.7926% by 15 individual shareholders. The capital increase was approved by Nanjing AIC on 27 October 2005.

(ii) Pursuant to two equity transfer agreements both dated 1 November 2005 between Lianxin and Management Shareholders and Chen Guoxiang, Management Shareholders and Chen Guoxiang agreed to transfer a total of approximately 1.7926% equity interest in NGC to Lianxin for a consideration of RMB2,580,000. The transfer was approved by Nanjing AIC on 10 November 2005.

(iii) On 27 November 2005, Lianxin and SOF(I) entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer an approximately 6.5403% equity interest in NGC to SOF(I) for a consideration of US$5,000,000. The transfer was approved by the Bureau of Foreign Trade and Economic Cooperation, Nanjing Municipality (南京市對外貿易經濟合作局) on 8 December 2005 and by Nanjing AIC on 15 December 2005.

(iv) On 26 December 2005, our Company entered into five equity transfer agreements with NGID, Lianxin, Yinxiang, Wenjing and SOF(I) respectively, pursuant to which our Company acquired (1) an approximately 51.0813% equity interest in NGC from NGID for a consideration of RMB74,785,130; (2) an approximately 30.2889% equity interest from Lianxin for a consideration of RMB44,344,160; (3) an approximately 1.737% equity interest from Yinxiang for a consideration of RMB2,543,030; (4) an approximately 1.3896% equity interest from Wenjing for a consideration of RMB2,034,410; and (5) an approximately 6.5403% equity interest from SOF(I) for a consideration of RMB9,579,300. The transfer was approved by Nanjing AIC on 30 December 2005.

(v) On 27 April 2006, pursuant to a capital increase agreement dated 18 February 2006, NSA made a further investment of US$10,922,923.81 in NGC, of which a payment of RMB1.00 was regarded as contribution of further registered capital of NGC and the payment of the remaining balance was transferred to the capital reserve fund of NGC. The capital increase was approved by Nanjing AIC on 27 April 2006.

(vi) On 13 June 2006, pursuant to an agreement to convert the capital reserve fund into registered capital dated 22 May 2006, the registered capital of NGC was increased to RMB180,000,000 through conversion of capital reserves of RMB78,462,699. Following such conversion, NGC was owned as to approximately 91.0371% by our Company, as to approximately 3.4045% by Jiangsu VC, as to approximately 2.7792% by Suzhou VC and as to approximately 2.7792% by Union Strong. The capital increase was approved by Nanjing AIC on 13 June 2006.

(vii) Pursuant to an equity transfer agreement dated 19 June 2006, Lianxin acquired an approximately 2.7792% equity interest in NGC from Union Strong for a consideration of RMB13,000,000. The transfer was approved by Nanjing AIC on 18 July 2006.

(viii) Pursuant to two equity transfer agreements both dated 23 June 2006, Wise-Win acquired an approximately 3.4045% and an approximately 2.7792% equity interest in NGC from Jiangsu VC and Suzhou VC respectively for a consideration of RMB13,798,004 and RMB11,263,743. The transfer was approved by the Department of Foreign Trade & Economic Cooperation, Jiangsu Provincial Government (江蘇省對外貿易經濟合作廳) on 12 July 2006 and by Nanjing AIC on 18 July 2006.

(ix) Pursuant to an equity transfer agreement dated 12 August 2006, our Company acquired an approximately 6.1837% equity interest in NGC from Wise-Win for a consideration of US$1,390,000. The transfer was approved by the Department of Foreign Trade & Economic Cooperation, Jiangsu Provincial Government (江蘇省對外貿易經濟合作廳) on 21 August 2006 and by Nanjing AIC on 28 August 2006.

(x) Pursuant to an equity transfer agreement dated 12 August 2006, our Company acquired an approximately 2.7792% equity interest in NGC from Lianxin for a consideration of RMB13,000,000. The transfer was approved by the Department of Foreign Trade & Economic Cooperation, Jiangsu Provincial Government (江蘇省對外貿易經濟合作廳) on 21 August 2006 and by Nanjing AIC on 28 August 2006.

(b) Ningjiang

(i) On 25 August 2005, the ten individual shareholders (of which eight are members of the Management Shareholders, the other two individuals being Mr. Ma Zhiping and Mr. Zheng Shusheng) and Lianxin entered into an equity transfer agreement pursuant to which such ten individual shareholders agreed to transfer an aggregate of 49% equity interest in Ningjiang to Lianxin for a consideration of RMB2,473,568.13. The transfer was approved by Nanjing AIC on 22 August 2005.

(ii) On 9 October 2005, Lianxin and Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer a 44% equity interest in Ningjiang to Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) for a consideration of RMB2,223,568.13. The transfer was approved by Nanjing AIC on 26 October 2005.

(iii) On 9 October 2005, Lianxin and Nanjing Dongalloy entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer a 5% equity interest in Ningjiang to Nanjing Dongalloy for a consideration of RMB250,000. The transfer was approved by Nanjing AIC on 26 October 2005.

(iv) On 16 March 2006, pursuant to a capital increase agreement dated 16 February 2006, the registered capital of Ningjiang was increased to US$1,393,264 of which approximately 42.62% was owned by NGC, approximately 2.24% was owned by Nanjing Dongalloy and approximately 55.14% was owned by SOF(I). The capital increase was approved by Nanjing AIC on 16 March 2006.

(v) On 28 March 2006, SOF(I) and our Company entered into an equity transfer agreement pursuant to which SOF(I) agreed to transfer an approximately 55.14% equity interest in Ningjiang to our Company for a consideration of US$1. The transfer was approved by Nanjing AIC on 19 June 2006.

(c) Nanjing Dongalloy

(i) On 25 August 2005, 12 individual shareholders (of which ten are members of Management Shareholders, the other two individuals being Mr. Wu Shixiong and Mr. Wei Wei) and Lianxin entered into an equity transfer agreement pursuant to which such 12 individual shareholders agreed to transfer an aggregate of 47.39% equity interest in Nanjing Dongalloy to Lianxin for a consideration of RMB2,543,931.87. The transfer was approved by Nanjing AIC on 26 August 2005.

(ii) On 9 October 2005, Lianxin and Nanjing High Speed entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer an approximately 5% equity interest in Nanjing Dongalloy to Nanjing High Speed for a consideration of RMB265,856.25. The transfer was approved by Nanjing AIC on 20 October 2005.

(iii) On 9 October 2005, Lianxin and NGC entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer an approximately 42.39% equity interest in Nanjing Dongalloy to NGC for a consideration of RMB2,278,075.62. The transfer was approved by Nanjing AIC on 20 October 2005.

(d) Nanjing High Speed

(i) On 18 August 2005, the nine individual shareholders (being members of the Management Shareholders) and Lianxin entered into an equity transfer agreement pursuant to which such nine individual shareholders agreed to transfer an aggregate of 29.18% equity interest in Nanjing High Speed to Lianxin for a consideration of RMB17,800,000. The transfer was approved by Nanjing AIC on 22 August 2005.

(ii) On 9 October 2005, Lianxin and Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer an approximately 24.18% equity interest in Nanjing High Speed to Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) for a consideration of RMB14,750,000. The transfer was approved by Nanjing AIC on 26 October 2005.

(iii) On 9 October 2005, Lianxin and Ningjiang entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer a 5% equity interest in Nanjing High Speed to Ningjiang for a consideration of RMB3,050,000. The transfer was approved by Nanjing AIC on 26 October 2005.

(iv) On 9 October 2005, NGID and Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) entered into an equity transfer agreement pursuant to which NGID agreed to transfer an approximately 20.656% equity interest in Nanjing High Speed to Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) for a consideration of RMB12,600,000. The transfer was approved by Nanjing AIC on 26 October 2005.

(v) On 22 February 2006, pursuant to a capital increase agreement dated 8 February 2006, the registered capital of Nanjing High Speed was increased to RMB61,616,161.6 and was owned as to approximately 94.05% by NGC, as to 4.95% by Ningjiang, as to approximately 0.6045% by NGID, as to 0.3585% by Lianxin, as to approximately 0.0164% by Wenjing and as to approximately 0.0206% by Yinxiang. The capital increase was approved by Nanjing AIC on 22 February 2006.

(vi) On 12 March 2006, Lianxin and NGC entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer an approximately 0.3585% equity interest in Nanjing High Speed to NGC for a consideration of RMB1.00. The transfer was approved by Nanjing AIC on 25 March 2006.

(vii) On 12 March 2006, Yinxiang and NGC entered into an equity transfer agreement pursuant to which Yinxiang agreed to transfer an approximately 0.0206% equity interest in Nanjing High Speed to NGC for a consideration of RMB1.00. The transfer was approved by Nanjing AIC on 25 March 2006.

(viii) On 12 March 2006, Wenjing and NGC entered into an equity transfer agreement pursuant to which Wenjing agreed to transfer an approximately 0.0164% equity interest in Nanjing High Speed to NGC for a consideration of RMB1.00. The transfer was approved by Nanjing AIC on 25 March 2006.

(ix) On 12 March 2006, NGID and NGC entered into an equity transfer agreement pursuant to which NGID agreed to transfer an approximately 0.6045% equity interest in Nanjing High Speed to NGC for a consideration of RMB1.00. The transfer was approved by Nanjing AIC on 25 March 2006.

(x) On 28 March 2006, pursuant to the shareholders' resolutions of Nanjing High Speed dated 23 March 2006, the registered capital of Nanjing High Speed was increased to RMB100,000,000 through conversion of capital reserves of approximately RMB38,383,838.4 in Nanjing High Speed. Following such conversion, Nanjing High Speed was owned as to approximately 95.05% by NGC and as to approximately 4.95% by Ningjiang. The capital increase was approved by Nanjing AIC on 28 March 2006.

(xi) On 8 October 2006, pursuant to a capital increase agreement dated 16 September 2006, the registered capital of Nanjing High Speed was increased to RMB101,000,000 of which 94.1089% was owned by NGC, 4.9010% by Ningjiang and 0.9901% by Lianxin. The capital increase was approved by Nanjing AIC on 8 October 2006.

(xii) On 10 October 2006, Lianxin and NGC entered into an equity transfer agreement pursuant to which Lianxin agreed to transfer an approximately 0.9901% equity interest in Nanjing High Speed to NGC for a consideration of RMB874,844.07. The transfer was approved by Nanjing AIC on 24 October 2006.

(e) Nanjing Wind Power

(i) On 20 December 2006, Goldwind and NGC entered into an equity transfer agreement pursuant to which Goldwind agreed to transfer a 35% equity interest in Nanjing Wind Power for a consideration of RMB3,500,000. The transfer was approved by Nanjing AIC on 31 December 2006.

(ii) On 20 December 2006, Mr. Yuan Baogang (袁包鋼) and Nanjing High Speed entered into an equity transfer agreement pursuant to which Mr. Yuan Baogang (袁包鋼) agreed to transfer a 10% equity interest in Nanjing Wind Power to Nanjing High Speed for a consideration of RMB1,000,000. The transfer was approved by Nanjing AIC on 31 December 2006.

(f) Shenyang Sales Co.

(i) On 18 April 2006, NGC and Nanjing High Speed entered into an equity transfer agreement pursuant to which NGC agreed to transfer a 51% equity interest in Shenyang Sales Co. to Nanjing High Speed for a consideration of RMB2,550,000. The transfer was approved by Shenyang AIC on 27 April 2006.

(ii) On 18 April 2006, Mr. Gu Jichun (谷繼春) and Nanjing High Speed entered into an equity transfer agreement pursuant to which Mr. Gu Jichun (谷繼春) agreed to transfer a 24% equity interest in Shenyang Sales Co. to Nanjing High Speed for a consideration of RMB1,200,000. The transfer was approved by Shenyang AIC on 27 April 2006.

(iii) On 18 December 2006, Mr. Gao Weizhong (高衛忠) and Nanjing Dongalloy entered into an equity transfer agreement pursuant to which Mr. Gao Weizhong (高衛忠) agreed to transfer a 25% equity interest in Shenyang Sales Co. to Nanjing Dongalloy for a consideration of RMB1,250,000. The transfer was approved by Shenyang AIC on 12 January 2007.

(g) Yongte

(i) On 24 November 2005, Mr. Li Shengqiang (李聖強), being one of the Directors, and Nanjing Dongalloy entered into a capital contribution transfer agreement pursuant to which Mr. Li Shengqiang (李聖強) agreed to transfer RMB30,000 capital contribution in Yongte to Nanjing Dongalloy for a consideration of RMB50,000. The transfer was approved by Nanjing AIC on 30 November 2005.

(h) Nanjing Marine

(i) On 2 February 2007, Nanjing Marine was established in PRC as a limited liability company with a registered capital of RMB50,000,000 of which 5% was owned by NGC and 95% by Nanjing High Speed.

(i) Nanjing Transmission

(i) On 27 March 2007, Nanjing Transmission was established in PRC as a limited liability company with a registered capital of US$29,800,000 and was wholly-owned by Eagle Nice Holdings Limited.

Save for the subsidiaries mentioned in Appendix IB and the paragraph headed "Information on the PRC Subsidiaries and associate companies" in this Appendix, our Company has no other Subsidiaries. Save as set out above, there has been no alteration in the share capital of any of the Subsidiaries of our Company within the two years immediately preceding the date of this prospectus.

6. Information on the PRC Subsidiaries and associate companies

1.	Name:	NGC
	Nature:	Wholly foreign-owned enterprise
	Date of Incorporation:	16 August 2001
	Term:	50 years from 16 August 2001 (until 15 August 2051)
	Total investment as stated in the Certificate of Approval for establishment of Enterprises with Foreign Investment in PRC:	RMB540,000,000
	Registered capital:	RMB180,000,000 (fully paid up)
	Attributable interest of the Group:	100%
	Registered Owner:	Company (100%)

	Registered Office:	2nd Floor, Finance Building, Nanjing Economic and Technological Development Zone
	Approved Scope of Business:	Production of general, high speed and heavy mechanical transmission equipment and complete sets of industrial equipment; design and manufacturing of new type of mechanical equipment for ports, manufacturing of sheet conticasters, production of equipment powered by new energy etc., research and development of industrial and electromechanical products, complete sets of equipment and related technology; sales of its own products as well as provision of related technology and ancillary services
	Name Of Directors:	Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Li Shengqiang, Mr. Lu Xun, Mr. Liu Jianguo, Mr. Zhang Wei, Mr. Liu Xuezhong, Mr. Pan Jinhong, Mr. Liu Cheng, Mr. Wang Qi, Mr. Richard Andrew Cornish Piliero
	Legal representative:	Mr. Hu Yueming
2.	Name:	Ningjiang
	Nature:	Sino-foreign joint venture
	Date of Incorporation:	26 November 2003
	Term:	50 years from 26 November 2003 (until 16 November 2053)
	Total investment as stated in the Certificate of Approval for establishment of Enterprises with Foreign Investment in PRC:	US$1,393,264
	Registered capital:	US$1,393,264 (fully paid up)
	Attributable interest of the Group:	100%
	Registered Owner:	Company (55.14%); NGC (42.62%); Nanjing Dongalloy (2.24%)
	Registered Office:	No. 1 Tian Yuan East Road, Jiangning Science Park, Nanjing, Postal Code 211100
	Approved Scope of Business:	Production of gears, gear boxes and complete sets of equipment, research and development of industrial and electromechanical products, complete sets of equipment and related technology, sales of its own products as well as provision of related technology and ancillary services
	Name Of Directors:	Mr. Hu Yueming, Mr. Li Shengqiang, Mr. Liu Jianguo, Mr. Ma Zhiping, Mr. Zeng Shusheng
	Legal representative:	Mr. Hu Yueming

3.

Name:	Nanjing Dongalloy
Nature:	Limited liability company
Date of Incorporation:	26 September 1994
Term:	50 years from 26 September 1994 (until 25 September 2044)
Registered capital:	RMB5,317,125 (fully paid up)
Attributable interest of the Group:	100%
Registered Owner:	NGC (95%); Nanjing High Speed (5%)
Registered Office:	No.9, Nanjing High and New Technology Industrial Development Zone
Approved Scope of Business:	Production and sales of transmission equipment and related mechanical and electrical products
Name of Directors:	Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Wu Shixiong, Mr. Liao Enrong
Legal representative:	Mr. Hu Yueming

4.

Name:	Nanjing High Speed
Nature:	Limited liability company
Date of Incorporation:	8 July 2003
Term:	50 years from 8 July 2003 (until 25 June 2053)
Registered capital:	RMB101,000,000 (fully paid up)
Attributable interest of the Group:	100%
Registered Owner:	NGC (95.099%); Ningjiang (4.901%)
Registered Office:	No. 1 Tian Yuan East Road, Jiangning Science Park, Nanjing, Postal Code 211100
Approved Scope of Business:	Production of general, high speed, wind power gear boxes and parts, production and sales of gears for machines, general gears and standardised gears, production and sales of mechanical and electrical products (excluding sedan cars), complete set of equipment and the transfer of technology, sales of raw materials, machines, equipment and parts for production and scientific research, sales of its own products and export of technology and import of machines, equipment, parts and raw materials and technology required by the company, excluding commodities and technologies which are restricted to certain companies or the import and export of which are prohibited by State
Name of Directors:	Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Li Shengqiang, Mr. Lu Xun, Mr. Liu Jianguo, Mr. Liao Enrong, Mr. Zhang Jiancheng, Mr. Dong Zhenbo
Legal representative:	Mr. Hu Yueming

5.	Name:	Ningkai
	Nature:	Limited liability company
	Date of Incorporation:	19 November 2002
	Term:	50 years from 19 November 2002 (until 18 November 2052)
	Registered capital:	RMB35,000,000 (fully paid up)
	Attributable interest of the Group:	83.37% (the other interest is owned by Nanjing Saihong Industrial and Trading Co., Ltd 南京賽虹工貿有限公司 (“Saihong”). Saihong is wholly-owned by two state owned enterprises which are supervised and controlled by Saihong Street Office, a PRC governmental authority. Save for its direct interest in Ningkai and indirect interest in Ningtai and to the best knowledge, information and belief of the Directors having made due and careful enquiries, Saihong is an independent third party)
	Registered Owner:	NGC (83.37%); Saihong Industrial and Trading Co., Ltd. (南京賽虹工貿有限公司) (16.63%)
	Registered Office:	You Fang Village, Xi Shan Bridge Road, Yu Hua Tai District, Nanjing, the PRC
	Approved Scope of Business:	Mechanical processing
	Name of Directors:	Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Li Shengqiang, Mr. Liu Jianguo, Mr. Liao Enrong, Mr. Wei Zaishou, Mr. Zhao Lihua, Mr. Chen Minggui
	Legal representative:	Mr. Hu Yueming
6.	Name:	Nanjing Wing Power
	Nature:	Limited liability company
	Date of Incorporation:	7 March 2005
	Term:	30 years from 7 March 2005 (until 3 March 2035)
	Registered capital:	RMB10,000,000 (fully paid up)
	Attributable interest of the Group:	100%
	Registered Owner:	NGC (90%); Nanjing High Speed (10%)
	Registered Office:	No. 1 Tian Yuan East Road, Jiangning Science Park, Nanjing, Postal Code 211100
	Approved Scope of Business:	Production and sales of wind power gear boxes and related parts
	Name of Directors:	Mr. Hu Yueming, Mr. Liao Enrong, Mr. Liu Jianguo
	Legal representative:	Mr. Hu Yueming
7.	Name:	Shenyang Sales Co.
	Nature:	Limited liability company
	Date of Incorporation:	17 January 2004

	Term:	ten years from 17 January 2004 (until 17 January 2014)
	Registered capital:	RMB5,000,000 (fully paid up)
	Attributable interest of the Group:	100%
	Registered Owner:	Nanjing High Speed (75%); Nanjing Dongalloy (25%)
	Registered Office:	No. 20, Shen Liao East Road, Tie Xi District, Shenyang, the PRC
	Approved Scope of Business:	Sales of gears, decelerators, machinery, electronic equipment, office equipment, home appliances, steel products, motor vehicles (excluding sedan cars), nonferrous metal, wire and cable, bearings, gear boxes and parts
	Name of Directors:	Mr. Lu Xun, Mr. Liao Enrong, Ms. Fang Fang
	Legal representative:	Mr. Lu Xun
8.	Name:	Ningtai
	Nature:	Limited liability company
	Date of Incorporation:	25 August 2003
	Term:	40 years from 25 August 2003 (until 18 August 2043)
	Registered capital:	RMB300,000 (fully paid up)
	Attributable interest of the Group:	85.03% (the remaining attributable interest is owned by Saihong indirectly)
	Registered Owner:	Ningkai (90%); Yongte (10%)
	Registered Office:	No. 3 You Jia Ao, Yu Hua Tai District, Nanjing, the PRC, Postal Code 210012
	Approved Scope of Business:	Property management, greening, civil engineering, works for prevention of water seepage and deterioration, interior and outdoor decoration, retail of labour protection products (excluding special labour protection products), cleaning services, labour services, photocopying, film development, Chinese food catering, general delivery (where specific approval is required for operation, such approval must be obtained before commencement of operation)
	Name of Directors:	Mr. Hu Yueming
	Legal representative:	Mr. Hu Yueming
9.	Name:	Yongte
	Nature:	Limited liability company
	Date of Incorporation:	13 October 2004
	Term:	36 years from 13 October 2004 (until 29 July 2040)
	Registered capital:	RMB600,000 (fully paid up)
	Attributable interest of the Group:	100%
	Registered Owner:	Ningjiang (95%); Nanjing Dongalloy (5%)

	Registered Office:	Xiao Hang, Zhong Hua Men Wai, Yu Hua Tai District, Nanjing, the PRC
	Approved Scope of Business:	Production of gears, gear boxes and parts, repair and maintenance of machine tool equipment and electrical machines, sales of daily necessities, general chemical products, hardware tools and metal materials, processing of wood products and repair and maintenance of properties
	Name Of Directors:	Mr. Hu Yueming, Mr. Li Shengqiang, Mr. Liu Jianguo, Mr. Chen Liguo, Mr. Ma Zhiping
	Legal representative:	Mr. Hu Yueming
10.	Name:	Nanjing Marine
	Nature:	Limited liability company
	Date of Incorporation:	2 February 2007
	Term:	50 years from 2 February 2007 (until 29 January 2057)
	Registered capital:	RMB50,000,000 (fully paid up)
	Attributable interest of the Group:	100%
	Registered Owner:	Nanjing High Speed (95%); NGC (5%)
	Registered Office:	No. 1 Tian Yuan East Road, Jiangning Science Park, Nanjing, Postal Code 211100
	Approved Scope of Business:	Production and sales of marine gear boxes, propellers and related products for the power system, research and development of mechanical and electrical products, technology transfer, technology consultancy services, production, sales and supply of complete sets of related equipment and materials
	Name of Directors:	Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Liao Enrong, Mr. Chen Liguo
	Legal representative:	Mr. Hu Yueming
11	Name:	Nanjing Transmission
	Nature:	Wholly foreign owned enterprise
	Date of incorporation:	27 March 2007
	Term:	2 years from 27 March 2007 (until 22 March 2009)
	Total investment as stated in the Certificate of Approval for establishment of Enterprises with Foreign Investment in PRC:	US$29,800,000
	Registered capital:	US$29,800,000 (of which US$6,000,000 has been paid up)
	Attributable interest of the Group:	100%
	Registered owner:	Eagle Nice Holdings Limited

	Registered office:	No. 1 Tian Yuan East Road, Jiangning Science Park, Nanjing, Postal Code 211100
	Approved scope of business:	Production of general, high speed and heavy mechanical transmission equipment and the complete set of industrial equipment; design and manufacturing of new type of mechanical equipment for ports, manufacturing of sheet conticasters, production of equipment powered by new energy etc., research and development of industrial and electromechanical products, complete sets of equipment and related technology, production of related ancillary products; sales of its own products as well as provision of related technology and services
	Name of directors:	Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Li Cunzhang, Mr. Li Shengqiang, Mr. Lu Xun, Mr. Liu Jianguo, Mr. Liao Enrong, Mr. Liu Xuezhong, Mr. Pan Jinhong, Mr. Zhang Wei and Mr. Liu Cheng
	Legal representative:	Mr. Hu Yueming
12.	Name:	Nanjing Engineering (Jointly controlled entity)
	Nature:	Limited liability company
	Date of Incorporation:	2 August 2006
	Term:	20 years from 2 August 2006 (until 1 August 2026)
	Registered capital:	RMB20,000,000 (fully paid up)
	Attributable interest of the Group:	50%
	Registered Owner:	NGC (50%), Mr. Ma Xiang (馬祥) (48%); Ms. Ruining (芮寧) (2%)
	Registered Office:	No. 1 Tian Yuan East Road, Jiangning Science Park, Nanjing, Postal Code 211100
	Approved Scope of Business:	Production and sales of construction equipment and complete sets of electrical and mechanical products; research and development of electrical and mechanical products, technology transfer, technology training, technology consultancy; production, sales and supply of complete sets of related equipment and materials
	Name Of Directors:	Mr. Hu Yueming, Mr. Lu Xun, Mr. Zhang Tao, Mr. Ma Xiang, Mr. Zhu Shiming, Mr. Xia Mingxing
	Legal Representative:	Mr. Hu Yueming
13.	Name:	ZF Nanjing (Associate company)
	Nature:	Sino-foreign joint venture
	Date of Incorporation:	5 July 2006
	Term:	Indefinite
	Total investment:	RMB60,000,000

Registered capital:	RMB30,000,000 (fully paid up)
Attributable interest of the Group:	40%
Registered Owner:	NGC (40%); ZF China (60%)
Registered Office:	No. 1 Tian Yuan East Road, Jiangning Science Park, Nanjing, Postal Code 211100
Approved Scope of Business:	Application engineering, assembling and testing of works for continuous iron casting and steel casting by 800 horsepower or above, steel plate welding of marine gear boxes, and sales of its own products
Name Of Directors:	Mr. Roland Heil, Mr. John Van der Pas, Mr. Fredrik Staedtler, Mr. Hu Yueming, Mr. Chen Yongdao
Legal Representative:	Mr. Roland Heil

7. Repurchase by the Company of Shares

(a) Provisions of the Listing Rules

The Listing Rules permit companies whose primary listings are on the Stock Exchange to repurchase their securities on the Stock Exchange subject to certain restrictions, the most important of which are summarised below:

(i) Shareholders' approval

All proposed repurchases of securities on the Stock Exchange by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of shareholders, either by way of general mandate or by specific approval of a particular transaction.

Pursuant to the written resolution passed by the shareholders of the Company on 8 June 2007, a general unconditional mandate (the ''Repurchase Mandate'') was granted to the Directors authorising the repurchase by the Company on the Stock Exchange, or on any other stock exchange on which the Shares may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, of Shares with an aggregate nominal amount not exceeding 10% of the aggregate nominal amount of the share capital of the Company in issue, as enlarged by the Global Offering and the Capitalisation Issue (but excluding any share capital of the Company which may be issued pursuant to the Over-allotment Option), at any time until the conclusion of the next annual general meeting of the Company, the expiration of the period within which the next annual general meeting of the Company is required by an applicable law or the Articles to be held or when such mandate is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting, whichever is the earliest.

(ii) Source of funds

Repurchases must be funded out of funds legally available for the purpose in accordance with the Articles of the Company and the laws of the Cayman Islands. A listed company may not repurchase its own securities on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

(b) Reasons for repurchases

The Directors believe that it is in the best interests of the Company and its Shareholders for the Directors to have a general authority from Shareholders to enable the Company to repurchase Shares in the market. Repurchases of Shares will only be made when the Directors believe that such repurchases will benefit the Company and its members. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of the net value of the Company and its assets and/or its earnings per Share.

(c) Funding of repurchases

In repurchasing securities, the Company may only apply funds legally available for such purpose in accordance with the Articles of the Company and the applicable laws of the Cayman Islands.

It is presently proposed that any repurchase of Shares would be made out of capital paid up on the repurchased Shares, funds of the Company which would otherwise be available for dividend or distribution and, in case of any premium payable on such repurchase, from funds of the Company otherwise available for dividend or distribution or out of the Company's share premium account before the Shares are repurchased.

The Directors do not propose to exercise the Repurchase Mandate to such an extent as would, in the circumstances, have a material adverse effect on the working capital requirements of the Company or its gearing levels which, in the opinion of the Directors, are from time to time appropriate for the Company.

(d) Share capital

Exercise in full of the Repurchase Mandate, on the basis of 1,200,000,000 Shares in issue immediately after the Global Offering without taking into account the issue of Shares under the Over-allotment Option, could accordingly result in up to 120,000,000 Shares being repurchased by the Company during the period prior to:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by any applicable law or the Articles to be held; or

(iii) the revocation or variation of the Repurchase Mandate by an ordinary resolution of the Shareholders in general meeting,

whichever occurs first.

(e) General

None of the Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their respective associates (as defined in the Listing Rules), has any present intention to sell any Shares to the Company or its Subsidiaries.

The Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the Listing Rules and the applicable laws of the Cayman Islands.

No connected person (as defined in the Listing Rules) has notified the Company that he or it has a present intention to sell Shares to the Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

If as a result of a securities repurchase pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of the Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. Accordingly, a Shareholder, or a group of Shareholders acting in concert, depending on the level of increase of the Shareholders' interest, could obtain or consolidate control of the Company and become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

If the Repurchase Mandate is fully exercised immediately following completion of the Global Offering and the Capitalisation Issue without taking into account any Shares which may be allotted and issued upon the exercise of the Over-allotment Option or which may fall to be allotted and issued pursuant to the exercise of the any options which may be granted under the Share Option Scheme, the total number of Shares which will be repurchased pursuant to the Repurchase Mandate shall be 120,000,000 Shares (being 10% of the issued share capital of the Company based on the aforesaid assumptions). The percentage shareholding of Fortune Apex, Luckever and Wiaearn, being the controlling shareholders of the Company, would increase to 50.67% of the issued share capital of the Company immediately following the full exercise of the Repurchase Mandate. Accordingly, Fortune Apex, Luckever and Wiaearn would be obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code unless a whitewash waiver is obtained. Save as aforesaid, the Directors are not aware of any consequences of the repurchases which would give rise under the Takeovers Code. Any repurchase of Shares which results in the number of Shares held by the public being reduced to less than the prescribed percentage of the Shares then in issue may only be implemented with the approval of the Stock Exchange to waive the Listing Rules requirements regarding the public shareholding referred to above. However, the Directors do not propose to exercise the Repurchase Mandate to such an extent that, in the circumstances, there is insufficient public float as prescribed under the Listing Rules.

B. FURTHER INFORMATION ABOUT THE BUSINESS

1. Summary of material contracts

The following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or its subsidiaries within the two years preceding the date of this prospectus and are or may be material:

(a) Capital increase agreement relating to Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) dated 30 September 2005 and entered into among Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC), Lianxin and NGID, and pursuant to which Lianxin and NGID made a further investment of RMB22,817,500 and RMB12,600,000 into Nanjing High Speed & Accurate Gear Ltd. respectively pursuant to the terms and conditions thereof;

(b) Equity transfer agreement dated 9 October 2005 and entered into between NGID and Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) whereby Nanjing High Speed & Accurate Gear Ltd. acquired a 20.656% equity interest in Nanjing High Speed from NGID pursuant to the terms and conditions thereof;

(c) Equity transfer agreement dated 9 October 2005 and entered into between Lianxin and Ningjiang whereby Ningjiang acquired a 5% equity interest in Nanjing High Speed from Lianxin pursuant to the terms and conditions thereof;

(d) Equity transfer agreement dated 9 October 2005 and entered into between Lianxin and Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) whereby Nanjing High Speed & Accurate Gear Ltd. acquired a 24.180% equity interest in Nanjing High Speed from Lianxin pursuant to the terms and conditions thereof;

(e) Equity transfer agreement dated 9 October 2005 and entered into between Lianxin and Nanjing High Speed whereby Nanjing High Speed acquired a 5% equity interest in Nanjing Dongalloy from Lianxin pursuant to the terms and conditions thereof;

(f) Equity transfer agreement dated 9 October 2005 and entered into between Lianxin and Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) whereby Nanjing High Speed & Accurate Gear Ltd. acquired a 42.39% equity interest in Nanjing Dongalloy from Lianxin pursuant to the terms and conditions thereof;

(g) Equity transfer agreement dated 9 October 2005 and entered into between Lianxin and Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) whereby Nanjing High Speed & Accurate Gear Ltd. acquired a 44% equity interest in Ningjiang from Lianxin pursuant to the terms and conditions thereof;

(h) Equity transfer agreement dated 9 October 2005 and entered into between Lianxin and Nanjing Dongalloy whereby Nanjing Dongalloy acquired a 5% equity interest in Ningjiang from Lianxin pursuant to the terms and conditions thereof;

(i) Agreement to transfer capital contribution dated 24 November 2005 and entered into between Li Shengqiang (李聖強) and Nanjing Dongalloy whereby Li Shengqiang transferred his entire capital contribution of RMB30,000 in Yongte to Nanjing Dongalloy for a consideration of RMB50,000 pursuant to the terms and conditions thereof;

(j) Subscription and investment agreement dated 23 December 2005 and entered into between the Company, Fortune Apex, Golden Step Group Limited, Maxjoy Holdings Limited, Wiaearn Holdings Limited, Luckever Holdings Limited, SOF(I), DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited and Manulife Global Fund — China Value Fund in relation to, among other things, subscription for up to US$28,000,000 in principal amount of convertible bonds convertible into Shares;

(k) Equity transfer agreement dated 26 December 2005 and entered into between the Company and NGID whereby the Company acquired a 51.0813% equity interest in NGC from NGID for a consideration of RMB74,785,130 pursuant to the terms and conditions thereof;

(l) Equity transfer agreement dated 26 December 2005 and entered into between the Company and Lianxin whereby the Company acquired a 30.2889% equity interest in NGC from Lianxin for a consideration of RMB44,344,160 pursuant to the terms and conditions thereof;

(m) Equity transfer agreement dated 26 December 2005 and entered into between the Company and Yinxiang whereby the Company acquired a 1.737% equity interest in NGC from Yinxiang for a consideration of RMB2,543,030 pursuant to the terms and conditions thereof;

(n) Equity transfer agreement dated 26 December 2005 and entered into between the Company and Wenjing whereby the Company acquired a 1.3896% equity interest in NGC from Wenjing for a consideration of RMB2,034,410 pursuant to the terms and conditions thereof;

(o) Equity transfer agreement dated 26 December 2005 and entered into between the Company and SOF(I) whereby the Company acquired a 6.5403% equity interest in NGC from SOF(I) for a consideration of RMB9,579,300 pursuant to the terms and conditions thereof;

(p) State owned land use right transfer agreement dated 28 December 2005 and entered into between Jiangning Branch Bureau of Nanjing City Bureau of Land and Resources (南京市國土資源局江寧分局) and Nanjing High Speed & Accurate Gear Ltd. (南京高精齒輪有限公司) (now known as NGC) whereby Nanjing High Speed & Accurate Gear Ltd. acquired the use right to a piece of land located in south of Kejian Road and west of Dinglin Road with an area of approximately 47,777 square meters for a consideration of RMB8,599,878 for industrial use pursuant to the terms and conditions thereof;

(q) State owned land use right transfer agreement dated 28 December 2005 and entered into between Jiangning Branch Bureau of Nanjing City Bureau of Land and Resources (南京市國土資源局江寧分局) and Nanjing High Speed whereby Nanjing High Speed acquired the use right to a piece of land located in the south of No. 6 Road and east of Chengxu Road, Jiangning Science Park with an area of approximately 124,353.6 square meters for a consideration of RMB22,383,648 for industrial use pursuant to the terms and conditions thereof;

(r) Agreement in respect of Nanjing Jiangning Science Park Project (南京江寧科學園項目協議書) dated 5 January 2006 and entered into between Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) and Nanjing High Speed whereby, among other things, Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) agreed to assist Nanjing High Speed with the acquisition of the use right to a piece of land in Nanjing Jiangning Science Park with an area of 24 mu for a consideration of RMB1,920,000 and Nanjing High Speed agreed to build plants on such piece of land for the development and manufacturing of general, high speed, heavy mechanical transmission equipment, marine mechanical transmission equipment and marine propulsion system pursuant to the terms and conditions thereof;

(s) Agreement in respect of Nanjing Jiangning Science Park Project (南京江寧科學園項目協議書) dated 5 January 2006 and entered into between Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) and Ningjiang whereby, among other things, Nanjing Jiangning

Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) agreed to assist Ningjiang with the acquisition of the use right to a piece of land in Nanjing Jiangning Science Park with an area of 103.8 mu for a consideration of approximately RMB8,304,000 and Ningjiang agreed to build plants on such piece of land for the development and manufacturing of general, high speed, heavy mechanical transmission equipment, marine mechanical transmission equipment and marine propulsion system pursuant to the terms and conditions thereof;

(t) Operation agreement of the offshore account of NSA Group Holdings Limited (NSA Group Holdings Limited 離岸帳戶之監管協議) dated 24 January 2006 and entered into between the Company, DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited, Manulife Global Fund-China Value Fund, Bank of Bermuda (Cayman) Limited and China Merchants Bank Co., Ltd. in relation to, among other things, joint operation of an offshore account in the name of the Company opened and maintained with China Merchants Bank Co., Ltd.;

(u) Operation agreement of the offshore account of SOF(I) (SOF(I) 離岸帳戶之監管協議) dated 24 January 2006 and entered into between the Company, SOF(I) , DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited, Manulife Global Fund — China Value Fund, Bank of Bermuda (Cayman) Limited and China Merchants Bank Co., Ltd. in relation to, among other things, joint operation of an account in the name of SOF(I) opened and maintained with the China Merchants Bank Co., Ltd.;

(v) Supplemental agreement dated 26 January 2006 and entered into between the Company, Fortune Apex, Golden Step Group Limited, Maxjoy Holdings Limited, Wiaearn Holdings Limited, Luckever Holdings Limited, SOF(I), DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited and Manulife Global Fund — China Value Fund in relation to the subscription and investment agreement dated 23 December 2005;

(w) Subordination deed dated 26 January 2006 and entered into between the Company, Fortune Apex, Golden Step Group Limited, Maxjoy Holdings Limited, Wiaearn Holdings Limited, Luckever Holdings Limited, DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited and Manulife Global Fund — China Value Fund whereby Fortune Apex, Golden Step Group Limited, Maxjoy Holdings Limited, Wiaearn Holdings Limited, Luckever Holdings Limited and the Company agree, inter alia, that any liabilities payable by the Company to the Shareholders by reason of their ownership of Shares shall be subordinate to the Convertible Bonds pursuant to the terms and conditions thereof;

(x) Charge over designated NSA offshore account dated 26 January 2006 and entered into between the Company, DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited and Manulife Global Fund — China Value Fund whereby the Company agreed, inter alia, to charge all its rights, title, interest and benefit of all sums standing to the credit of the account in the name of the Company opened and maintained with China Merchants Bank to the Pre-IPO Investors pursuant to the terms and conditions thereof;

(y) Capital increase agreement relating to Nanjing High Speed dated 8 February 2006 and entered into among NGC, Ningjiang, NGID, Lianxin, Wenjing, Yinxiang and Nanjing High Speed whereby in aggregate NGID, Lianxin, Wenjing and Yinxiang agreed to make a further investment of RMB107,706,730.00 into Nanjing High Speed pursuant to the terms and conditions thereof;

(z) Capital increase agreement relating to Ningjiang dated 16 February 2006 and entered into among NGC, Nanjing Dongalloy and SOF(I) whereby SOF(I) agreed to make a further investment of US$1,183,956.00 into Ningjiang pursuant to the terms and conditions thereof;

(aa) Capital increase agreement relating to NGC dated 18 February 2006 and entered into among Jiangsu VC, Suzhou VC, Union Strong and the Company pursuant to which the Company agreed to make a further investment of US$10,922,923.81 into NGC pursuant to the terms and conditions thereof;

(bb) Equity transfer agreement dated 12 March 2006 and entered into between Lianxin and NGC whereby NGC acquired a 0.3585% equity interest in Nanjing High Speed from Lianxin for a consideration of RMB1.00 pursuant to the terms and conditions thereof;

(cc) Equity transfer agreement dated 12 March 2006 and entered into between Yinxiang and NGC whereby NGC acquired a 0.0206% equity interest in Nanjing High Speed from Yinxiang for a consideration of RMB1.00 pursuant to the terms and conditions thereof;

(dd) Equity transfer agreement dated 12 March 2006 and entered into between Wenjing and NGC whereby NGC acquired a 0.0164% equity interest in Nanjing High Speed from Wenjing for a consideration of RMB1.00 pursuant to the terms and conditions thereof;

(ee) Equity transfer agreement dated 12 March 2006 and entered into between NGID and NGC whereby NGC acquired a 0.6045% equity interest in Nanjing High Speed from NGID for a consideration of RMB1.00 pursuant to the terms and conditions thereof;

(ff) Equity transfer agreement relating to Ningjiang dated 28 March 2006 and entered into between SOF(I) and the Company whereby the Company acquired a 55.14% equity interest in Ningjiang from SOF(I) for a consideration of US$1.00 pursuant to the terms and conditions thereof;

(gg) Second supplemental agreement dated 31 March 2006 and entered into between the Company, Fortune Apex, Golden Step Group Limited, Maxjoy Holdings Limited, Wiaearn Holdings Limited, Luckever Holdings Limited, SOF(I), DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited and Manulife Global Fund — China Value Fund in relation to the subscription and investment agreement dated 23 December 2005;

(hh) Equity transfer agreement dated 18 April 2006 and entered into between NGC and Nanjing High Speed whereby Nanjing High Speed acquired a 51% equity interest in Shenyang Sales Co. from NGC for a consideration of RMB2,550,000 pursuant to the terms and conditions thereof;

(ii) Equity transfer agreement dated 18 April 2006 and entered into between Nanjing High Speed and Gu Jichun (谷繼春) whereby Nanjing High Speed acquired a 24% equity interest in Shenyang Sales Co. from Gu Jichun for a consideration of RMB1,200,000 pursuant to the terms and conditions thereof;

(jj) Agreement to convert capital reserve fund into registered capital of NGC dated 22 May 2006 and entered into among Jiangsu VC, Suzhou VC, Union Strong and the Company pursuant to which the registered capital of NGC was increased to RMB180,000,000 through conversion of capital reserve of RMB78,462,699 pursuant to the terms and conditions thereof;

(kk) Contract for the establishment of the joint venture relating to ZF Nanjing dated 12 June 2006 and entered into between NGC and ZF China in relation to the establishment of ZF Nanjing in accordance with the terms and conditions thereof;

(ll) Share allotment agreement dated 11 August 2006 and entered into between the Company and Wise-Win Technology Limited whereby the Company issued and allotted 6,793 Shares to Wise-Win Technology Limited for a consideration of US$1,390,000 pursuant to the terms and conditions thereof;

(mm) Equity transfer agreement relating to NGC dated 12 August 2006 and entered into between the Company and Wise-Win Technology Limited whereby the Company acquired a 6.1837% equity interest in NGC from Wise-Win Technology Limited for a consideration of US$1,390,000 pursuant to the terms and conditions thereof;

(nn) Equity transfer agreement relating to NGC dated 12 August 2006 and entered into between the Company and Lianxin whereby the Company acquired a 2.7792% equity interest in NGC from Lianxin for a consideration of RMB13,000,000 pursuant to the terms and conditions thereof;

(oo) State owned land use right transfer agreement dated 15 September 2006 and entered into between Nanjing Xingang Development Company (南京新港開發總公司) and NGC whereby NGC acquired the use right to a piece of land located in Nanjing Economic and Technological Development Zone with an area of approximately 5.56 mu for a consideration of RMB667,200 for industrial use pursuant to the terms and conditions thereof;

(pp) Land use agreement dated 15 September 2006 and entered into between Management Committee of Nanjing Economic and Technological Development Zone (南京經濟技術開發區管理委員會) and NGC whereby Management Committee of Nanjing Economic and Technological Development Zone agreed to assist NGC with the acquisition of the use right to a piece of land located in Phase 3 of Nanjing Economic and Technological Development Zone with an area of approximately 22.04 mu for a consideration of RMB2,644,800 for industrial use pursuant to the terms and conditions thereof;

(qq) Entrusted investment agreement dated 16 September 2006 and entered into among NGC, Ningjiang, NGID, Lianxin, Yinxiang, Wenjing and Nanjing High Speed whereby (i) NGID, Yinxiang and Wenjing which agreed to appoint Lianxin as their investment agent and (ii) Lianxin to make an investment of RMB15,866,713.86 in aggregate in Nanjing High Speed pursuant to the terms and conditions thereof;

(rr) Capital increase agreement relating to Nanjing High Speed dated 16 September 2006 and entered into among NGC, Ningjiang, Lianxin and Nanjing High Speed whereby Lianxin made a further investment of RMB15,866,713.86 into Nanjing High Speed, of which a payment of RMB1,000,000.00 was regarded as contribution of further registered capital of Nanjing High Speed pursuant to the terms and conditions thereof;

(ss) Equity transfer agreement dated 10 October 2006 and entered into between Lianxin and NGC whereby NGC acquired a 0.9901% equity interest in Nanjing High Speed from Lianxin by reference to the net asset value of Nanjing High Speed as at 31 May 2006 pursuant to the terms and conditions thereof;

(tt) Investment agreement in respect of Nanjing Jiangning Science Park Project (南京江寧科學園項目投資協議書) dated 14 December 2006 and entered into between Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) and Nanjing Marine regarding, among other things, the investment and proposed acquisition of the land use right to a piece of land in Nanjing Jiangning Science Park with an area of 51 mu for a consideration of RMB4,590,000 by Nanjing Marine;

(uu) Equity transfer agreement dated 18 December 2006 and entered into between Gao Weizhong (高衛忠) and Nanjing Dongalloy whereby Nanjing Dongalloy acquired a 25% equity interest in Shenyang Sales Co. from Gao Weizhong for a consideration of RMB1,250,000 pursuant to the terms and conditions thereof;

(vv) Equity transfer agreement dated 20 December 2006 and entered into between Goldwind and NGC whereby NGC acquired a 35% equity interest in Nanjing Wind Power from Goldwind for a consideration of RMB3,500,000 pursuant to the terms and conditions thereof;

(ww) Equity transfer agreement dated 20 December 2006 and entered into between Yuan Bao Gang (袁包鋼) and Nanjing High Speed whereby Nanjing High Speed acquired a 10% equity interest in Nanjing Wind Power from Yuan Bao Gang for a consideration of RMB1,000,000 pursuant to the terms and conditions thereof;

(xx) Conversion agreement dated 22 December 2006 and entered into between the Company, Fortune Apex, Golden Step Group Limited, Maxjoy Holdings Limited, Wiaearn Holdings Limited, Luckever Holdings Limited, Wise-Win Technology Limited, SOF(I), Forebright Management Limited, DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited and Manulife Global Fund — China Value Fund in relation to the conversion of the outstanding Convertible Bonds into Shares;

(yy) Shareholders' agreement dated 22 December 2006 and entered into between the Company, Fortune Apex, Golden Step Group Limited, Maxjoy Holdings Limited, Wiaearn Holdings Limited, Luckever Holdings Limited, Wise-Win Technology Limited, SOF(I), Forebright Management Limited, DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Limited Partnership, Emory University, Value Partners China Hedge Master Fund Limited and Manulife Global Fund — China Value Fund in relation to the respective rights of the parties as shareholders in the Company;

(zz) Investment agreement in respect of Nanjing Jiangning Science Park Project (南京江寧科學園項目投資協議書) dated 22 December 2006 and entered into between Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) and Nanjing High Speed whereby, among other things, Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) agreed to assist Nanjing High Speed with the acquisition of the use right to a piece of land in Nanjing Jiangning Science Park with an area of 340 mu for a consideration of approximately RMB34,000,000 pursuant to the terms and conditions thereof;

(aaa) Share subscription agreement dated 8 February 2007 and entered into between the Company and GE Capital whereby GE Capital agreed to subscribe for 7,648 Shares, representing approximately 5% of the total issued share capital of the Company as enlarged by such issue and allotment to GE Capital for a consideration of US$8,500,000 pursuant to the terms and conditions thereof;

(bbb) Amended and restated shareholders' agreement of the Company dated 8 February 2007 and entered into between the Company, Fortune Apex, Golden Step Group Limited, Maxjoy Holdings Limited, Wiaearn Holdings Limited, Luckever Holdings Limited, Wise-Win Technology Limited, SOF(I), Forebright Management Limited, DPF, Templeton, Value Partners Classic Fund, Value Partners Intelligent Funds — Chinese Mainland Focus Fund, Value Partners Intelligent Funds — JA-VP China New Century Fund, Value Partners Intelligent Funds — JA-VP Chugokutairiku Focus Fund, Value Partners High-Dividend Stocks Fund, Value Partners Asia Fund, LLC, Emory University, Value Partners China Hedge Master Fund Limited, Manulife Global Fund — China Value Fund and GE Capital in relation to the respective rights of the parties as shareholders in the Company;

(ccc) State owned land use right transfer agreement dated 8 February 2007 and entered into between Nanjing City Bureau of Land and Resources (南京市國土資源局) and NGC whereby NGC acquired the use right to a piece of land located at Nanjing Economic and Technological Development Zone, Qi Xia District (栖霞區南京經濟技術開發區) with an area of approximately 14,604.5 square meters for a consideration of RMB2,336,720 for industrial use pursuant to the terms and conditions thereof;

(ddd) Investment Agreement in respect of Nanjing Jiangning Science Park Project (南京江寧科學園項目投資協議書) dated 2 March 2007 and entered into between Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) and Nanjing High Speed whereby, among other things, Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) agreed to assist Nanjing High Speed with the acquisition of the use right to a piece of land in Nanjing Jiangning Science Park with an area of 24 mu for a consideration of approximately RMB1,920,000 pursuant to the terms and conditions thereof;

(eee) Service Agreement in respect of Investment in Nanjing Jiangning Science Park Project (南京江寧科學園項目投資服務協議書) dated 2 March 2007 and entered into between Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) and Nanjing High Speed whereby, among other things, Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) agreed to assist Nanjing High Speed with the acquisition of the use right to a piece of land in Nanjing Jiangning Science Park with an area of 340 mu for a consideration of approximately RMB11,400,000 pursuant to the terms and conditions thereof;

(fff) Investment Agreement in respect of Nanjing Jiangning Science Park Project (南京江寧科學園項目投資協議書) dated 2 March 2007 and entered into between Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) and Ningjiang whereby, among other things, Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) agreed to assist Ningjiang with the acquisition of the use right to a piece of land in Nanjing Jiangning Science Park with an area of 103.8 mu for a consideration of approximately RMB8,304,000 pursuant to the terms and conditions thereof;

(ggg) Service Agreement in respect of Investment in Nanjing Jiangning Science Park Project (南京江寧科學園項目投資服務協議書) dated 2 March 2007 and entered into between Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) and Nanjing Marine whereby, among other things, Nanjing Jiangning Science Park Development Co., Ltd. (南京江寧科學園發展有限公司) agreed to assist Nanjing Marine with the acquisition of the use right to a piece of land in Nanjing Jiangning Science Park with an area of 51 mu for a consideration of approximately RMB1,836,000 pursuant to the terms and conditions thereof;

(hhh) Deed of indemnity dated 8 June 2007 given by each of Fortune Apex, Luckever and Wiaearn in favour of the Company. For details, please refer to the paragraph headed "Estate duty and tax indemnity" below;

(iii) Deed of non-competition dated 8 June 2007 given by each of the members of the Controlling Group in favour of the Company. For details, please refer to the paragraph headed "Non-compete undertakings" in the section headed "Substantial Shareholders" above; and

(jjj) Hong Kong Underwriting Agreement.

2. Intellectual property rights

(a) Trademarks

As at the Latest Practicable Date, the Group was the registered owner of the following trademark:

Trademark	Registered owner	Place of registration	Class	Items covered	Registration number	Validity period
	NGC	PRC	7	note 1	886699	21 October 1996 to 20 October 2006, extended to 20 October 2016

As at the Latest Practicable Date, the Group has applied for registration of acquisition of the following trademark from NGID pursuant to a trademark transfer agreement dated 3 March 2007:

Trademark	Applicant	Place of registration	Class	Items covered	Current registered owner	Current registration number	Current validity period
永特	NGC	PRC	7	note 2	NGID	758135	28 July 1995 to 27 July 2005, extended to 27 July 2015

As of the Latest Practicable Date, the Group had applied for registration of the following trademarks:

Trademark	Place of application	Applicant	Class	Products and Services Covered	Application No.	Application Date
	Hong Kong	Company	7	note 3	300872640	17 May 2007
	Hong Kong	Company	12	note 4	300872640	17 May 2007

Notes:

1. including machine coupling joints, transmission belt and other machine parts, mechanical transmission equipment and decelerator
2. including transmissions for machines, mechanical jacks, machine wheelwork, reduction gears other than for land vehicles, rack and pinion jacks, transmission gear, joints, shaft couplings machines, decelerator of mechanical transmission equipment, machines for smelting industry, blooming mill, section mill, jobbing sheet rolling mill, tube mill, wire mill, special rolling mill, rolling mills, finishing mill, cutting machine, rolling mill cylinders, crushing machine, mixing machine, concrete mixer

3. Machine and machine tools; machine coupling and transmission components (except for land vehicles); gear boxes other than for land vehicles; gears, other than for land vehicles; parts for joining machinery; axles for machines; machinery for metal refining industries; gear boxes for bar rolling, plate rolling and wire rolling; cutting machines; rolling mill cylinder; crushing machines; mixing machines; concrete mixers (machines); machine wheels; machine wheelwork.
4. Apparatus for locomotion by land; gear boxes for land vehicles; gearing for land vehicles; gears for cycles; axles for vehicles; couplings and transmission components for land vehicles; transmission for land vehicles.

(b) Utility models

As at the Latest Practicable Date, the Group was the registered owner of the following utility models registered in the PRC:

Name of the patent	Registered owner	Patent certificate number	Patent registration number	Effective period
High Efficiency Rolling Blade (高效滾刀)	NGC	700814	ZL 2004 2 0026261.2	ten years from 14 April 2004
Curved Surface Decelerator (曲面結構箱體減速器)	NGC	665655	ZL 2003 2 0119801.7	ten years from 21 November 2003
Accelerator gear box for electricity generator driven by wind power (風力發電機增速齒輪箱)	Nanjing High Speed	740105	ZL 2004 2 0080174.5	ten years from 12 October 2004
Accelerator gear box for electricity generator driven by wind power (用於風力發電機的增速齒輪箱)	Nanjing High Speed	740253	ZL 2004 2 0080175.X	ten years from 12 October 2004
Accelerator gear for electricity generator driven by wind power (風力發電機增速齒輪箱)	Nanjing High Speed	894611	ZL 2006 2 0068477.4	ten years from 16 January 2006
Accelerator gear box for electricity generator driven by wind power (用於風力發電機的增速齒輪箱)	Nanjing High Speed	894357	ZL 2006 2 0068476.X	ten years from 16 January 2006

As at the Latest Practicable Date, the Group has applied for registration of the following utility models in the PRC:

Description	Applicant	Application date	Application number
Main decelerator of high power refinery machine driven by two electric machines (由兩台電動機驅動的大功率密煉機的主減速機)	NGC	25 September 2006	200620077287.9
Output part of the main decelerator for single screw pitch extruder (單螺杆擠出機用主減速機中的輸出機構)	NGC	25 September 2006	200620077288.3

Description	Applicant	Application date	Application number
Main decelerator for refinery machine (用於密煉機的主減速機)	NGC	25 September 2006	200620077286.4
Welded large gear in the two times decelerator of the furnace transferring equipment (轉爐傾動裝置二次減速機中的焊接大齒輪)	NGC	25 September 2006	200620077289.8
Standing decelerator (立式減速機)	NGC	22 August 2006	200620076890.5
Decelerator for sugar extractor with hard gear surface (硬齒面榨糖機用減速機)	NGC	22 August 2006	200620076889.2
Broad milling cutter of gear (the position of which can be changed) with big front angle (大負前角可轉位齒輪粗銑刀)	NGC	22 August 2006	200620076888.8
Decelerator for new sugar extractor (新型榨糖機減速機組)	NGC	22 August 2006	200620076887.3
Turning gear box for combustion engines (透平燃機用盤車齒輪箱)	Nanjing High Speed	25 December 2006	200620165296.3
Gear box with two gears on same side operating in reverse (同側雙出反向齒輪箱)	Nanjing High Speed	25 December 2006	200620165295.9
High speed decelerator gear box of steam turbine for electricity (汽輪機發電用高速減速齒輪箱)	Nanjing High Speed	25 December 2006	200620165297.8
Tray shaped gear cutter (盤狀齒輪銑刀)	Nanjing High Speed	26 December 2006	200620165291.0
Hoist gear for petroleum drilling rig (石油鉆機絞車齒輪箱)	Nanjing High Speed	25 December 2006	200620165292.5
High speed gear box for compressors (壓縮機用高速齒輪箱)	Nanjing High Speed	25 December 2006	200620165293.X
High speed gear box for compressors (壓縮機高速齒輪箱)	Nanjing High Speed	25 December 2006	200620165294.4
Positioning device for spline shaft for meshing with sun camshaft spline (與太陽輪軸花鍵嚙合的花鍵軸的支承定位裝置)	Nanjing High Speed	7 December 2006	200620125683.4
A type of lubricate mechanism of epicyclic gear in gear box for wind power generation (一種風力發電機齒輪箱中行星齒輪的潤滑機構)	Nanjing High Speed	7 December 2006	200620125682.X
Lubricate mechanism of epicyclic gear in gear box for wind power generation (風力發電機齒輪箱中行星齒輪的潤滑機構)	Nanjing High Speed	10 November 2006	200620125020.2

(c) Design patents

As at the Latest Practicable Date, the Group was the registered owner of the following design patents registered in the PRC:

Name of the patent	Registered owner	Patent certificate number	Patent registration number	Effective period
Decelerator (RV series) 減速器（RV系列）	NGC	381504	ZL 2003 3 0112257.9	ten years from 21 November 2003
Decelerator (P series) 減速器（P系列）	NGC	384963	ZL 2003 3 0112256.4	ten years from 21 November 2003

As at the Latest Practicable Date, the Group has applied for registration of the following design patents in the PRC:

Description	Applicant	Application date	Application number
Decelerator (減速機)	NGC	22 August 2006	200630141670.1

(d) Invention patents

As at the Latest Practicable Date, the Group was the registered owner of the following invention patents in the PRC:

Name of the patent	Registered owner	Patent certificate number	Patent registration number	Effective period
Gear box with changeable propellor for electricity generator driven by wind power (風力發電機變槳齒輪箱)	Nanjing High Speed	313235	ZL 200410064931.4	20 years from 12 October 2004
Gear box with tilting route for electricity generator driven by wind power (風力發電機偏航齒輪箱)	Nanjing High Speed	328550	ZL 200410064930.4	20 years from 12 October 2004

As at the Latest Practicable Date, the Group has applied for registration of the following invention patents in the PRC:

Description	Applicant	Application date	Application number
Decelerator for sugar extractor with hard gear surface And processing methods for hard gear surface (硬齒面榨糖機用減速機及硬齒面加工方法)	NGC	22 August 2006	200610088409.9

(e) Domain Name

As at the Latest Practicable Date, the Group was the registered owner of the following domain name:

Domain name	Registration date
www.ngc.com.cn	1 February 2000
www.chste.com	29 April 2007

The contents at the above website do not form part of this prospectus.

Save as disclosed herein, there are no other trade or service marks, patents, other intellectual or industrial property rights which are material to the business of the Group.

C. FURTHER INFORMATION ABOUT DIRECTORS AND SUBSTANTIAL SHAREHOLDERS

1. Directors

(a) Disclosure of interest — interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations

Immediately following completion of the Global Offering and the Capitalisation Issue and assuming that the Over-allotment Option is not exercised, none of the Directors or the chief executive of the Company has any interest or short position in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which will be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange, pursuant to Model Code for Securities Transactions by Directors of Listed Companies, once the Shares are listed.

(b) Particulars of service contracts

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date until terminated by not less than three months' notice in writing served by either party on the other. Each of the executive Directors is entitled to their respective basic salaries set out below.

Each of the non-executive Directors and the independent non-executive Directors has entered into a service contract with the Company for a term of three years commencing from the Listing Date. Each of the independent non-executive Directors is entitled to their respective annual fees set out below. The appointments are subject to the provisions of retirement and rotation of Directors under the Articles.

(c) Directors' remuneration

The aggregate amount of fee, salaries, housing allowances, other allowances and benefits in kind paid by the Group during the three years ended 31 December 2006 was approximately RMB3,070,000, RMB3,762,000 and RMB4,772,000 respectively. The current annual director's fees and remuneration of the executive and non-executive Directors are as follows:

Name of Director	Annual director's fee
	(RMB '000)
Executive Directors	
Hu Yueming	728
Chen Yongdao	658
Li Cunzhang	658
Li Shengqiang	658
Lu Xun	658
Liu Jianguo	658
Liao Enrong	658
Non-executive Directors	
Zhu Keming	12
Zhang Wei	12
Wang Qi	12
Richard Andrew Cornish Piliero	12
Independent non-executive Directors	
Jiang Xihe	40
Zhu Junsheng	40
Chen Shimin	100

Under the arrangement currently in force, the aggregate amount of emoluments payable by the Group to the Directors for the year ending 31 December 2007 will be approximately RMB4,814,000 (approximately HK$4,912,245).

Further details of the terms of the above service contracts are set out in the paragraph headed "Particulars of service contracts" in the subsection headed "Directors" in this section.

2. Substantial Shareholders

So far as the Directors are aware, immediately following the completion of the Global Offering (but without taking into account Shares to be issued pursuant to the exercise of the Over-allotment Option) and the Capitalisation Issue, the following persons, not being the Directors or chief executive of the Company, will have an interest or short position in the Shares and the underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, will be, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

(i) Long and short positions in the Shares and underlying Shares

Name of Shareholder	Nature of interest	Number of securities held	Approximate shareholding percentage
			(%)
Fortune Apex *(note 3)*	Beneficial owner	329,386,024(L) 45,000,000(S) *(note 2)*	27.45 3.75
Wiaearn *(note 4)*	Beneficial owner	60,284,023	5.02
Mr. Pan Jinhong *(note 4)*	Interest of a controlled corporation	60,284,023	5.02
Luckever *(note 5)*	Beneficial owner	157,568,700	13.13
Mr. Liu Xuezhong *(note 5)*	Interest of a controlled corporation and interest of spouse	157,568,700	13.13
Ms. Li Yuelan *(note 5)*	Interest of a controlled corporation and interest of spouse	157,568,700	13.13
Value Partners Limited *(note 6)*	Investment Manager	94,273,765	7.86
Mr. Cheah Cheng Hye *(note 7)*	Interest of a controlled corporation	94,273,765	7.86
GE Capital	Beneficial owner	60,000,000	5.00
General Electric Company *(note 8)*	Interest of a controlled corporation	60,000,000	5.00

Notes:

(1) The letters "L" and "S" denote the person's long position and short position in such Shares, respectively.

(2) These Shares will be the subject of the Stock Borrowing Agreement.

(3) Fortune Apex owns 27.45% interest in the issued share capital of the Company. The Management Shareholders together own 100% interest in the issued share capital of Fortune Apex. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex:

	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%

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

(4) Wiaearn owns 5.02% interest in the issued share capital of the Company. Mr. Pan Jinhong owns 100% interest in the issued share capital of Wiaearn. Pursuant to the SFO, Mr. Pan Jinhong is deemed to be interested in the 60,284,023 Shares in which Wiaearn is currently interested.

(5) Luckever owns 13.13% 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 respectively. Ms. Li Yuelan is the spouse of Mr. Liu Xuezhong and therefore is deemed to be interested in the Shares 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 in which Luckever is currently interested.

(6) Value Partners Limited is the investment manager of each of the New VPL Funds/Sub-Funds and is therefore deemed to be interested in the Shares held by the New VPL Funds/Sub-Funds in aggregate pursuant to the SFO.

(7) Mr. Cheah Cheng Hye is the beneficial owner of 35.65% of the issued share capital of Value Partners Limited and is therefore deemed to be interested in the Shares held by Value Partners Limited pursuant to the SFO.

(8) GE Capital owns a 5% interest in the issued share capital of the Company if GE Capital exercises the Subscription Right in full and that the Global Co-ordinator allocates 15,000,000 Shares ("Additional GE Shares") to GE Capital as part of the International Placing pursuant to the GE Subscription Agreement and the Shareholders' Agreement. On 15 June 2007, GE Capital has undertaken to the Global Co-ordinator and us that it will exercise the Subscription Right in full to subscribe for the Additional GE Shares at the Offer Price. However, the Global Co-ordinator shall have the sole discretion to decide whether to allocate the Additional GE Shares to GE Capital, or at all. General Electric Company is a company listed on the New York Stock Exchange (NYSE: GE) and wholly owns GE Capital through intermediate companies, namely General Electric Capital Services, Inc. and General Electric Capital Corporation, and is therefore deemed to be interested in the Shares held by GE Capital pursuant to the SFO.

(9) The Controlling Group, which comprises the Management Shareholders, Mr. Pan Jinhong, Mr. Liu Xuezhong and Ms. Li Yuelan, together will hold approximately 45.6% in aggregate of the issued Share capital of the Company upon Listing assuming that the Over-allotment Option is not exercised.

(ii) Interests in other members of our Group

Name of interested party	Nature of Interest	Name of other member of our Group	Number of shares/Amount of registered capital	Approximately percentage of shareholding
Saihong Industrial and Trading Co., Ltd (南京賽虹工貿有限公司) (note 1)	Beneficial owner	Ningkai	RMB5,822,000 (registered capital)	16.63%

Note

(1) Saihong Industrial and Trading Co., Ltd is wholly-owned by two State-owned enterprises (namely Nanjing Zhixin Industrial and Trading Co., Ltd (南京智鑫工貿公司) and Yuhua Meat Wholesale Market (雨花肉類批發市場)) which in turn are supervised and controlled by Nanjing Yuhuatai District Saihong Bridge Street Office, a PRC local governmental office.

3. Agency fees or commissions received

Save as disclosed in this prospectus, no commissions, discounts, brokerages or other special terms were granted within the two years preceding the date of this prospectus in connection with the issue or sale of any capital of any member of the Group.

4. Disclaimers

Save as disclosed herein:

(a) none of the Directors or chief executive of the Company has any interest or short position in the Shares, underlying Shares or debentures of the Company or any of its associated corporation (within the meaning of the SFO) which will have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which will be required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Companies once the Shares are listed;

(b) none of the Directors or experts referred to under the heading “Consents of experts” in this Appendix has any direct or indirect interest in the promotion of the Company, or in any assets which have within the two years immediately preceding the date of this prospectus been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group;

(c) none of the Directors or experts referred to under the heading “Consents of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of the Group taken as a whole;

(d) none of the Directors has any existing or proposed service contracts with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation));

(e) taking no account of Shares which may be taken up under the Global Offering, none of the Directors knows of any person (not being a Director or chief executive of the Company) who will, immediately following completion of the Global Offering, have an interest or short position 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 SFO or be interested, directly or indirectly, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group;

(f) none of the experts referred to under the heading "Consents of experts" in this Appendix has any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group; and

(g) so far as is known to the Directors, none of the Directors, their respective associates (as defined under the Listing Rules) or shareholders of the Company who are interested in more than 5% of the issued share capital of the Company has any interests in the five largest customers or the five largest suppliers of the Group.

D. OTHER INFORMATION

1. Share Option Scheme

The following is a summary of the principal terms of the Share Option Scheme conditionally adopted by the written resolutions of all shareholders of the Company passed on 8 June 2007.

(a) Purpose

The Share Option Scheme is a share incentive scheme and is established to recognise and acknowledge the contributions the Eligible Participants (as defined in paragraph (b) below) have had or may have made to the Group. The Share Option Scheme will provide the Eligible Participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

(i) motivating the Eligible Participants to optimise their performance efficiency for the benefit of the Group; and

(ii) attracting and retaining or otherwise maintaining on-going business relationships with the Eligible Participants whose contributions are or will be beneficial to the long-term growth of the Group.

(b) Who may join

The Board may, at its discretion, offer to grant an option to subscribe for such number of new Shares as the Board may determine at an exercise price determined in accordance with paragraph (f) below to the following persons ("Eligible Participants"):

(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 its 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:

(aa) contribution to the development and performance of the Group;

(bb) quality of work performed for the Group;

(cc) initiative and commitment in performing his/her duties; and

(dd) length of service or contribution to the Group.

(c) Acceptance of an offer of options

An option shall be deemed to have been granted and accepted by the grantee and to have taken effect when the duplicate offer document constituting acceptances of the options duly signed by the grantee, together with a remittance in favour of the Company of HK$1.00 by way of consideration for the grant thereof, is received by the Company on or before the relevant acceptance date. Such payment shall in no circumstances be refundable. Any offer to grant an option to subscribe for Shares may be accepted in respect of less than the number of Shares for which it is offered provided that it is accepted in respect of a board lot for dealing in Shares on the Stock Exchange or an integral multiple thereof and such number is clearly stated in the duplicate offer document constituting acceptance of the option. To the extent that the offer to grant an option is not accepted by any prescribed acceptance date, it shall be deemed to have been irrevocably declined.

Subject to paragraphs (l), (m), (n), (o) and (p), an option shall be exercised in whole or in part and, other than where it is exercised to the full extent outstanding, shall be exercised in integral multiples of such number of Shares as shall represent one board lot for dealing in Shares on the Stock Exchange for the time being, by the grantee by giving notice in writing to the Company stating that the option is thereby exercised and the number of Shares in respect of which it is exercised. Each such notice must be accompanied by a remittance for the full amount of the exercise price for the Shares in respect of which the notice is given. Within 21 days after receipt of the notice and the remittance and, where appropriate, receipt of the certificate by the auditors to the Company or the approved independent financial adviser as the case may be pursuant to paragraph (r), the Company shall allot and issue the relevant number of Shares to the grantee credited as fully paid and issue to the grantee certificates in respect of the Shares so allotted.

The exercise of any option shall be subject to the Shareholders in general meeting approving any necessary increase in the authorised share capital of the Company.

(d) Maximum number of Shares

The maximum number of Shares in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme and under any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the Listing Date (but taking no account of any Shares which may be issued under the exercise of the Over-allotment Option), being 120,000,000 Shares (the "Scheme Limit"), excluding for this purpose Shares which would have been issuable pursuant to options which have lapsed in accordance with the terms of the Share Option Scheme (or any other share option schemes of the Company). Subject to the issue of a circular by the Company and the approval of the Shareholders in general meeting and/or such other requirements prescribed under the Listing Rules from time to time, the Board may:

(i) renew this limit at any time to 10% of the Shares in issue (the "New Scheme Limit") as at the date of the approval by the Shareholders in general meeting; and/or

(ii) grant options beyond the Scheme Limit to Eligible Participants specifically identified by the Board. The circular issued by the Company to the Shareholders shall contain a generic description of the specified Eligible Participants who may be granted such options, the number and terms of the options to be granted, the purpose of granting options to the specified Eligible Participants with an explanation as to how the options serve such purpose, the information required under Rule 17.02(2)(d) and the disclaimer required under Rule 17.02(4) of the Listing Rules.

Notwithstanding the foregoing, the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time shall not exceed 30% of the Shares in issue from time to time (the "Maximum Limit"). No options shall be granted under any schemes of the Company (including the Share Option Scheme) if this will result in the Maximum Limit being exceeded. The maximum number of Shares in respect of which options may be granted shall be adjusted, in such manner as the auditors of the Company or an approved independent financial adviser shall certify to be appropriate, fair and reasonable in the event of any alteration in the capital structure of the Company in accordance with paragraph (r) below whether by way of capitalisation issue, rights issue, open offer (if there is a price-dilutive element), consolidation, sub-division of shares or reduction of the share capital of the Company but in no event shall exceed the limit prescribed in this paragraph.

(e) Maximum number of options to any one individual

The total number of Shares issued and which may fall to be issued upon exercise of the options granted under the Share Option Scheme and any other share option schemes of the Company (including both exercised, outstanding options and Shares which were the subject of options which have been granted and accepted under the Share Option Scheme or any other scheme of the Company but subsequently cancelled (the "Cancelled Shares")) to each Eligible Participant in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue as at the date of grant. Any further grant of options in excess of this 1% limit shall be subject to:

(i) the issue of a circular by the Company containing the identity of the Eligible Participant, the numbers of and terms of the options to be granted (and options previously granted to such participant) the information as required under Rules 17.02(2)(d) and the disclaimer required under 17.02(4) of the Listing Rules; and

(ii) the approval of the Shareholders in general meeting and/or other requirements prescribed under the Listing Rules from time to time with such Eligible Participant and his associates (as defined in the Listing Rules) abstaining from voting. The numbers and terms (including the exercise price) of options to be granted to such participant must be fixed before the Shareholders' approval and the date of the Board meeting at which the Board proposes to grant the options to such Eligible Participant shall be taken as the date of grant for the purpose of calculating the subscription price of the Shares. The Board shall forward to such Eligible Participant an offer document in such form as the Board may from time to time determine or, alternatively, documents accompanying the offer document which state, among other things:

(aa) the Eligible Participant's name, address and occupation;

(bb) the date on which an option is offered to an Eligible Participant which must be a date on which the Stock Exchange is open for the business of dealing in securities;

(cc) the date upon which an offer for an option must be accepted;

(dd) the date upon which an option is deemed to be granted and accepted in accordance with paragraph (c);

(ee) the number of Shares in respect of which the option is offered;

(ff) the subscription price and the manner of payment of such price for the Shares on and in consequence of the exercise of the option;

(gg) the date of the notice given by the grantee in respect of the exercise of the option;

(hh) the method of acceptance of the option which shall, unless the Board otherwise determines, be as set out in paragraph (c); and

(ii) such other terms and conditions (including, without limitation, any minimum period for which an option must be held before it can be exercised and/or any performance targets which must be achieved before the option can be exercised) relating to the offer of the option which in the opinion of the Board are fair and reasonable but not being inconsistent with the Share Option Scheme and the Listing Rules.

(f) Price of Shares

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be such price as the Board in its absolute discretion shall determine, save that such price will not be less than the highest of:

(i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(ii) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

(g) Granting options to connected persons

Any grant of options to a director, chief executive or substantial shareholder (as defined in the Listing Rules) of the Company or any of their respective associates (as defined in the Listing Rules) is required to be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the Options). If the Board proposes to grant options to a substantial shareholder or any independent non-executive Director or their respective associates (as defined in the Listing Rules) which will result in the number of Shares issued and to be issued upon exercise of options granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

(i) representing in aggregate over 0.1% of the Shares in issue; and

(ii) having an aggregate value in excess of HK$5 million or such other sum as may be from time to time provided under the Listing Rules, based on the closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange at the date of each grant,

such further grant of options will be subject to the approval of the independent non-executive Directors as referred to in this paragraph, the issue of a circular by the Company and the approval of the Shareholders in general meeting on a poll at which all connected persons (as defined in the Listing Rules) of the Company shall abstain from voting in favour, and/or such other requirements prescribed under the Listing Rules from time to time. Any vote taken at the meeting to approve the grant of such options shall be taken as a poll.

The circular to be issued by the Company to the Shareholders pursuant to the above paragraph shall contain the following information:

(i) the details of the number and terms (including the exercise price) of the options to be granted to each selected Eligible Participant which must be fixed before the Shareholders' meeting and the date of Board meeting for proposing such further grant shall be taken as the date of grant for the purpose of calculating the exercise price of such options;

(ii) a recommendation from the independent non-executive Directors (excluding any independent non-executive Director who is the grantee of the options) to the independent Shareholders as to voting;

(iii) the information required under Rule 17.02(2)(c) and (d) and the disclaimer required under Rule 17.02(4) of the Listing Rules; and

(iv) the information required under Rule 2.17 of the Listing Rules.

(h) Restrictions on the times of grant of Options

A grant of options may not be made after a price sensitive event has occurred or a price sensitive matter has been the subject of a decision until such price sensitive information has been announced pursuant to the requirements of the Listing Rules. In particular, no options may be granted during the period commencing one month immediately preceding the earlier of:

(i) the date of the Board meeting (such date to first be notified to the Stock Exchange in accordance with the Listing Rules) for the approval of the Company's results for any year, half-year, quarterly or other interim period (whether or not required under the Listing Rules); and

(ii) the deadline for the Company to publish an announcement of the results for any year, or half-year, or quarterly or other interim period (whether or not required under the Listing Rules),

and ending on the date of actual publication of the results announcement.

(i) Rights are personal to grantee

An option is personal to the grantee. No grantee shall in any way sell, transfer, charge, mortgage, encumber or create any interest (legal or beneficial) in favour of any third party over or in relation to any option or attempt so to do (save that the grantee may nominate a nominee in whose name the Shares issued pursuant to the Share Option Scheme may be registered). Any breach of the foregoing shall entitle the Company to cancel any outstanding options or any part thereof granted to such grantee.

(j) Time of exercise of option and duration of the Share Option Scheme

An option may be exercised in accordance with the terms of the Share Option Scheme at any time after the date upon which the option is deemed to be granted and accepted and prior to the expiry of ten years from that date. The period during which an option may be exercised will be determined by the Board in its absolute discretion, save that no option may be exercised more than ten years after it has been granted. No option may be granted more than ten years after the date of approval of the Share Option Scheme by the shareholders of the Company (the "Adoption Date"). Subject to earlier termination by the Company in general meeting or by the Board, the Share Option Scheme shall be valid and effective for a period of ten years from the Adoption Date.

(k) Performance target

A grantee may be required to achieve any performance targets as the Board may then specify in the grant before any options granted under the Share Option Scheme can be exercised.

(l) Rights on ceasing employment/death

If the grantee of an option ceases to be an Eligible Participant:

(i) by any reason other than death, ill-health, injury, disability or termination of his relationship with the Company and/or any of its subsidiaries on one of more of the grounds specified in paragraph (m) below, the grantee may exercise the option up to the entitlement of the grantee as at the date of cessation (to the extent not already exercised) within a period of one month (or such longer period as the Board may determine) from such cessation which date shall be the last actual working day with the Company or the relevant subsidiary whether salary is paid in lieu of notice or not, failing which it will lapse (or such longer period as the Company may determine); or

(ii) by reason of death, ill-health, injury or disability (all evidenced to the satisfaction of the Board) and none of the events which would be a ground for termination of his relationship with the Company and/or any of its subsidiaries under paragraph (m) has occurred, the grantee or his personal representative(s) may exercise the option within a period of 12 months (or such longer period as the Board may determine) from the date of cessation of being an Eligible Participant or death to exercise the Options in full (to the extent not already exercised).

(m) Rights on dismissal

If the grantee of an option ceases to be an Eligible Participant on the grounds that he has been guilty of serious misconduct, or has committed any act of bankruptcy or has become insolvent or has made any arrangements or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option will lapse and not be exercisable after the date of termination of his employment.

(n) Rights on takeover

If a general offer is made to all the Shareholders (or all such Shareholders other than the offeror and/or any person controlled by the offeror and/or any person acting in concert with the offeror (as defined in the Takeovers Code)) and such offer becomes or is declared unconditional during the option period of the relevant option, the grantee of an option shall be entitled to exercise the option in full (to the extent not already exercised) at any time within 14 days after the date on which the offer becomes or is declared unconditional.

(o) Rights on winding-up

In the event a notice is given by the Company to its members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up the Company, the Company shall forthwith give notice thereof to all grantees and thereupon, each grantee (or his legal personal representative(s)) shall be entitled to exercise all or any of his options (to the extent not already exercised) at any time not later than two business days prior to the proposed general meeting of the Company referred to above by giving notice in writing to the Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given, whereupon the Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting, allot the relevant Shares to the grantee credited as fully paid.

(p) Rights on compromise or arrangement between the Company and its members or creditors

If a compromise or arrangement between the Company and its members or creditors is proposed for the purposes of a scheme for the reconstruction of the Company or its amalgamation with any other companies pursuant to the laws of jurisdictions in which the Company was incorporated, the Company shall give notice to all the grantees of the options on the same day as it gives notice of the meeting to its members or creditors summoning the meeting to consider such a scheme or arrangement and any grantee may by notice in writing to the Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given (such notice to be received by the Company no later than two business days prior to the proposed meeting), exercise the option to its full extent or to the extent specified in the notice and the Company shall as soon as possible and in any event no later than the business day immediately prior to the date of the proposed meeting, allot and issue such number of Shares to the grantee which falls to be issued on such exercise of the option credited as fully paid and register the grantee as holder thereof.

With effect from the date of such meeting, the rights of all grantees to exercise their respective options shall forthwith be suspended. Upon such compromise or arrangement becoming effective, all options shall, to the extent that they have not been exercised, lapse and determine. If for any reason such compromise or arrangement does not become effective and is terminated or lapses, the rights of grantees to exercise their respective options shall with effect from such termination be restored in full but only upon the extent not already exercised and shall become exercisable.

(q) Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until completion of the registration of the grantee (or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank pari passu and shall have the same voting, dividend, transfer and other rights, including those arising on liquidation as attached to the other fully-paid Shares in issue on the date of exercise, save that they will not rank for any dividend or other distribution declared or recommended or resolved to be paid or made by reference to a record date falling on or before the date of exercise.

(r) Effect of alterations to capital

In the event of any alteration in the capital structure of the Company whilst any option may become or remains exercisable, whether by way of capitalisation issue, rights issue, open offer (if there is a price-dilutive element), consolidation, subdivision or reduction of share capital of the Company, such corresponding alterations (if any) shall be made in the number of Shares subject to any outstanding options and/or the subscription price per Share of each outstanding option and/or the Scheme Limit, the New Scheme Limit and the Maximum Limit as the auditors of the Company or an independent financial adviser shall certify in writing to the Board to be in their/his opinion fair and reasonable in compliance with Rule 17.03(13) of the Listing Rules and the note thereto and the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issues relating to share option schemes. The capacity of the auditors of the Company or the approved independent financial adviser, as the case may be, in this paragraph is that of experts and not arbitrators and their certificate shall, in the absence of manifest error, be final and conclusive and binding on the Company and the grantees.

Any such alterations will be made on the basis that a grantee shall have the same proportion of the equity capital of the Company (as interpreted in accordance with the supplementary guidance attached to the letter from the Stock Exchange dated 5 September 2005 to all issues relating to share option schemes) for which any grantee of an option is entitled to subscribe pursuant to the options held by him before such alteration provided that no such alteration shall be made if the effect of which would be to enable a Share to be issued at less than its nominal value. The issue of securities as consideration in a transaction is not to be regarded as a circumstance requiring any such alterations.

(s) Expiry of option

An option shall lapse automatically and not be exercisable (to the extent not already exercised) on the earliest of:

(i) the date of expiry of the option as may be determined by the Board;

(ii) the expiry of any of the periods referred to in paragraphs (l), (m), (n) or (o);

(iii) the date on which the scheme of arrangement of the Company referred to in paragraph (p) becomes effective;

(iv) subject to paragraph (o), the date of commencement of the winding-up of the Company;

(v) the date on which the grantee ceases to be an Eligible Participant by reason of such grantee's resignation from the employment of the Company or any of its subsidiaries or the termination of his or her employment or contract on the grounds that he or she has been guilty of serious misconduct, or has committed any act of bankruptcy or is unable to pay his or her debts or has become insolvent or has made any arrangement or has compromised with his or her creditors generally, or has been convicted of any criminal offence involving his or her integrity or honesty or has been in breach of contract. A resolution of the Board to the effect that the employment of a grantee has or has not been terminated on one or more of the grounds specified in this paragraph shall be conclusive; or

(vi) the date on which the Board shall exercise the Company's right to cancel the option at any time after the grantee commits a breach of paragraph (i) above or the options are cancelled in accordance with paragraph (u) below.

(t) Alteration of the Share Option Scheme

The Share Option Scheme may be altered in any respect by resolution of the Board except that:

(i) any alteration to the advantage of the grantees or the Eligible Participants (as the case may be) in respect of the matters contained in Rule 17.03 of the Listing Rules; and

(ii) any material alteration to the terms and conditions of the Share Option Scheme or any change to the terms of options granted, shall first be approved by the Shareholders in general meeting provided that if the proposed alteration shall adversely affect any option granted or agreed to be granted prior to the date of alteration, such alteration shall be further subject to the grantees' approval in accordance with the terms of the Share Option Scheme. The amended terms of the Share Option Scheme must still comply with Chapter 17 of the Listing Rules and any change to the authority of the Board in relation to any alteration to the terms of the Share Option Scheme must be approved by Shareholders in general meeting.

(u) Cancellation of Options

Any cancellation of options granted but not exercised must be approved by the grantees of the relevant options in writing. For the avoidance of doubt, such approval is not required in the event any option is cancelled pursuant to paragraph (i).

(v) Termination of the Share Option Scheme

The Company may by resolution in general meeting or the Board at any time terminate the Share Option Scheme and in such event no further option shall be offered but the provisions of the Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the Share Option Scheme.

(w) Administration of the Board

The Share Option Scheme shall be subject to the administration of the Board whose decision as to all matters arising in relation to the Share Option Scheme or its interpretation or effect (save as otherwise provided herein) shall be final and binding on all parties.

(x) Conditions of the Share Option Scheme

The Share Option Scheme is conditional on:

(i) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in the Shares which may fall to be issued pursuant to the exercise of options to be granted under the Share Option Scheme;

(ii) the obligations of the Underwriters under the Underwriting Agreements becoming unconditional (including, if relevant, as a result of the waiver of any such condition(s) by the Joint Lead Managers (on behalf of the Underwriters)) and not being terminated in accordance with the terms of the Underwriting Agreements or otherwise; and

(iii) the commencement of dealings in the Shares on the Stock Exchange.

If the conditions in paragraph (x) above are not satisfied within 12 calendar months from the Adoption Date:

(i) the Share Option Scheme shall forthwith determine;

(ii) any option granted or agreed to be granted pursuant to the Share Option Scheme and any offer of such a grant shall be of no effect; and

(iii) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the Share Option Scheme or any option granted thereunder.

(y) Disclosure in annual and interim reports

The Company will disclose details of the Share Option Scheme in its annual and interim reports including the number of options, date of grant, exercise price, exercise period and vesting period during the financial year/period in the annual/interim reports in accordance with the Listing Rules in force from time to time.

As at the Latest Practicable Date, no option had been granted or agreed to be granted under the Share Option Scheme.

Application has been made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of the options to be granted under the Share Option Scheme, being 120,000,000 Shares in total.

2. Estate duty, and tax indemnity

Each of the Indemnifiers has entered into a deed of indemnity with and in favour of the Company (for itself and as trustee for each of its present subsidiaries) (being the contract referred to in paragraph hhh of the subsection headed "Summary of material contracts" in this Appendix) to provide indemnities on a joint and several basis against, among other things, any estate duty, death duty, inheritance tax, succession duty or any other similar tax or duty which is or becomes payable by the Company or any of its subsidiaries by the operation of any estate duty, death duty, inheritance tax, succession duty or any other similar legislation in Hong Kong or the PRC or any other relevant jurisdiction as a result or in consequence of any event or transaction occurring on or before the date on which the Global Offering becoming unconditional (the "Relevant Date").

The deed of indemnity also contain indemnities given jointly and severally by the Indemnifiers in respect of taxation resulting from income, profits or gains earned, accrued or received on or before the Relevant Date which might be payable by any member of the Group. The Indemnifiers shall be under no liability under the deed of indemnity in respect of, taxation:

(a) to the extent that provisions has been made for such taxation in the combined audited accounts of NGC and the Company as set out in the accountants' reports set out in Appendices IA and IB to this prospectus for the period from 1 January 2004 to 25 February 2004 and 26 February 2004 to 31 December 2004 and each of the two years ended 31 December 2006 respectively;

(b) for which any member of the Group is liable as a result of any event occurring or income, profits earned, accrued or received or alleged to have been earned, accrued or received or transactions entered into in the ordinary course of business or in the ordinary course of acquiring and disposing of capital assets after the Relevant Date;

(c) to the extent that such taxation or liability would not have arisen but for any act or omission by any member of the Group (whether alone or in conjunction with some other act, omission or transaction, whenever occurring) voluntarily effected without the prior written consent or agreement of the Indemnifiers, otherwise than in the ordinary course of business after the Relevant Date or carried out, made or entered into pursuant to a legally binding commitment created after the Relevant Date;

(d) to the extent that such taxation or liability is discharged by another person who is not the Company or any members of the Group and that the Company or such Group member is not required to reimburse such person in respect of the discharge of the taxation or liability; and

(e) to the extent that the relevant taxation claim arises or is incurred as a consequence of any retrospective change in the law or the interpretation or practice thereof by the Hong Kong Inland Revenue Department or the tax authorities or any other authority in any part of the world coming into force after the Relevant Date or to the extent such claim arises or is increased by an increase in the rates of taxation after the Relevant Date with retrospective effect.

3. Litigation

Whilst we are involved in certain legal proceeding of insignificant amount, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

4. Sponsor

The Sponsor has made an application on behalf of the Company to the Listing Committee of the Stock Exchange for a listing of, and permission to deal in, all the Shares in issue and to be issued as mentioned in this prospectus (including any Shares which may fall to be issued pursuant to the Share Option Scheme and the exercise of the Over-allotment Option).

5. Preliminary expenses

The preliminary expenses of the Company are estimated to be approximately HK$50,000 and are payable by the Company.

6. Promoter

Mr. Siu Sing Foon, Fortune Apex, Luckever, Maxjoy, Golden Step and Wiaearn are the promoters of the Company. Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus, no cash, securities or other benefit has been paid, allotted or given nor are any proposed to be paid, allotted or given to such promoters in connection with the Global Offering and the related transactions described in this prospectus.

7. Qualification of experts

The following are the qualifications of the experts who have given opinion or advice which is contained in this prospectus:

Name	Qualifications
Morgan Stanley Asia Limited	Licensed to conduct type 1 (dealing in securities), type 4 (advising on securities), type 5 (advising on futures contracts), type 6 (advising on corporate finance) and type 7 (providing automated trading services) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified public accountants
Maples and Calder	Cayman Islands attorneys-at-law
Jingtian & Gongcheng	PRC lawyers
DTZ Debenham Tie Leung Limited	Property valuers
Greater China Appraisal Limited	Asset valuers

8. Consents of experts

Each of the Sponsor, Deloitte Touche Tohmatsu, Maples and Calder, Jingtian & Gongcheng and DTZ Debenham Tie Leung Limited and Greater China Appraisal Limited has given and has not withdrawn its written consent to the issue of this prospectus with the inclusion of its report and/or letter and/or valuation certificate and/or opinion and/or the references to its name included herein in the form and context in which it is respectively included.

9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of Sections 44A and 44B of the Hong Kong Companies Ordinance so far as applicable.

10. Miscellaneous

(a) Save as disclosed in this prospectus, within the two years immediately preceding the date of this prospectus:

(i) no share or loan capital of the Company or any of its subsidiaries has been issued or agreed to be issued or is proposed to be fully or partly paid either for cash or a consideration other than cash;

(ii) no share or loan capital of the Company or any of its subsidiaries is under option or is agreed conditionally or unconditionally to be put under option;

(iii) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of the Company or any of its subsidiaries;

(iv) no commission has been paid or is payable for subscription, agreeing to subscribe, procuring subscription or agreeing to procure subscription of any share in the Company or any of its subsidiaries;

(b) Save as disclosed in this prospectus, there are no founder, management or deferred shares nor any debentures in the Company or any of its subsidiaries and no amount or benefit had been paid or given within the two immediately preceding years or is intended to be paid or given to any promoter;

(c) None of the persons named in the sub-paragraph headed "Consents of experts" in this Appendix is interested beneficially or otherwise in any shares of any member of the Group or has any right or option (whether legally enforceable or not) to subscribe for or nominate persons to subscribe for any securities in any member of the Group;

(d) The Directors confirm that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2006 (being the date to which the latest audited combined financial statements of the Group were made up);

(e) There has not been any interruption in the business of the Group which may have or has had a significant effect on the financial position of the Group in the 12 months preceding the date of this prospectus;

(f) The branch register of members of the Company will be maintained in Hong Kong by Computershare Hong Kong Investor Services Limited. Unless the Directors otherwise agree, all transfer and other documents of title of Shares must be lodged for registration with and registered by the Company's share register in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted to CCASS;

(g) No company within the Group is presently listed on any stock exchange or traded on any trading system;

(h) The Directors have been advised that, under the Companies Law, the use of a Chinese name pre-approved by the Registrar of Companies in the Cayman Islands by the Company in conjunction with its English name does not contravene the Companies Law; and

(i) The English text of this prospectus shall prevail over the Chinese text.

11. Bilingual Prospectus

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided by Section 4 of the Companies Ordinance (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

The documents attached to the copy of this prospectus registered by the Registrar of Companies in Hong Kong were copies of the Application Forms, the written consents referred to under the heading "Consents of experts" in Appendix VI, and copies of the material contracts referred to in the paragraph headed "Summary of material contacts" in Appendix VI to this prospectus.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Charltons at 10th Floor, Hutchison House, 10 Harcourt Road, Hong Kong during normal business hours up to and including the 14th day following the date of this prospectus:

(a) the Memorandum and Articles of Association;

(b) the Accountants' Reports on the Group prepared by Deloitte Touche Tohmatsu, the text of which are set out in Appendices IA and IB to this prospectus and the related statement of adjustments;

(c) the letter report on Unaudited Pro Forma Financial information issued by Deloitte Touche Tohmatsu, the text of which is set forth in Appendix II to this prospectus;

(d) the audited accounts which have been prepared for the companies comprising the Group for each of the three years ended 31 December 2006;

(e) the PRC legal opinion issued by Jingtian & Gongcheng, our legal adviser as to PRC law;

(f) the letters relating to the profit forecast for the financial year ending 31 December 2007, issued by Deloitte Touche Tohmatsu and Morgan Stanley, the texts of which are set forth in Appendix III to this prospectus;

(g) the letter and valuation certificate prepared by DTZ Debenham, the text of which is set out in Appendix IV to this prospectus;

(h) the letter prepared by Maples and Calder summarising certain aspects of Cayman Islands company law referred to in Appendix V to this prospectus;

(i) the appraisal report relating to the valuation of the business enterprise, convertible bonds and put option of the Company, prepared by Greater China Appraisal Limited;

(j) the material contracts referred to in the section headed "Summary of material contracts" in Appendix VI to this prospectus;

(k) the written consents referred to in the section headed "Consents of experts" in Appendix VI to this prospectus;

(l) the Share Option Scheme;

(m) the service agreements referred to under "Particulars of service contracts" in Appendix VI to this prospectus; and

(n) the Companies Law.