中國高速傳動設備集團有限公司*

China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock code: 658)

ANNOUNCEMENT
RESULTS FOR THE YEAR ENDED 31 DECEMBER 2008

PERFORMANCE HIGHLIGHTS

Revenue for 2008 was approximately RMB3,439,220,000, representing an increase of 80.6% as compared with last year.

Profit attributable to equity holders of the Company for 2008 was approximately RMB692,415,000, representing an increase of 125.8% as compared with last year.

Basic earnings per share for 2008 amounted to RMB0.56, representing an increase of 93.1% as compared with last year.

The Board recommended payment of a final dividend of HK25 cents per share for the year ended 31 December 2008.

The board of directors (the "Board") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2008 together with comparative figures as follows. The consolidated annual results have been reviewed by the Company's audit committee.

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2008

	NOTES	**2008** *RMB'000*	**2007** *RMB'000*
Revenue	3	3,439,220	1,904,816
Cost of sales		(2,447,060)	(1,351,751)
Gross profit		992,160	553,065
Other income	4	63,259	188,557
Other gains and loss	4	246,594	3,751
Distribution and selling costs		(106,939)	(79,320)
Administrative expenses		(284,340)	(227,914)
Research and development costs		(55,452)	(22,850)
Other expenses		(71,947)	(54,296)
Finance costs	5	(28,693)	(33,017)
Share of results of associates		(1,051)	(3,628)
Share of results of jointly controlled entities		10,892	—
Profit before tax		764,483	324,348
Income tax expense	6	(71,831)	(17,904)
Profit for the year	7	692,652	306,444
Attributable to:			
Equity holders of the company		692,415	306,693
Minority interests		237	(249)
		692,652	306,444
Dividends	8	87,568	34,789
Earnings per share	9		

CONSOLIDATED BALANCE SHEET
AT 31 DECEMBER 2008

	NOTES	**2008** *RMB'000*	**2007** *RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		2,361,940	1,405,364
Prepaid lease payments		242,256	49,893
Intangible assets		61,205	54,848
Interests in associates		18,485	7,536
Interests in jointly controlled entities		569,512	—
Available-for-sale investments		34,948	14,703
Prepayment for land lease		144,300	114,210
Prepayment for acquisition of property, plant and equipment		176,870	95,880
Deferred tax assets		7,184	8,283
		3,616,700	1,750,717
CURRENT ASSETS			
Inventories		1,335,674	646,107
Prepaid lease payments		5,125	1,226
Available-for-sale investments		20,500	43,000
Trade and other receivables	10	1,294,246	638,497
Amount due from an associate		24,026	10,906
Amount due from a jointly controlled entity		14,780	—
Amount due from a related party		900	1,716
Pledged bank deposits		502,696	177,265
Restricted cash		981,566	—
Bank balances and cash		681,643	1,516,146
		4,861,156	3,034,863
CURRENT LIABILITIES			
Trade and other payables	11	2,048,940	1,156,074
Tax liabilities		53,648	15,557
Borrowings - due within one year	12	1,292,166	420,818
		3,394,754	1,592,449
NET CURRENT ASSETS		1,466,402	1,442,414
TOTAL ASSETS LESS CURRENT LIABILITIES		5,083,102	3,193,131

	NOTES	2008	2007
		RMB'000	RMB'000
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	68,346	73,040
Deferred tax liabilities		23,937	12,224
Financial liabilities designated as at fair value through profit or loss - convertible bonds		931,550	—
Derivative financial instrument		292,794	—
Deferred income		31,830	—
		1,348,457	85,264
		3,734,645	3,107,867
CAPITAL AND RESERVES			
Share capital	13	94,629	94,629
Reserves		3,636,457	3,009,916
Equity attributable to equity holders of the parent		3,731,086	3,104,545
Minority interests		3,559	3,322
		3,734,645	3,107,867

NOTES

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited with effect from 4 July 2007.

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

In the current year, the Group has applied the following amendments and interpretations ("new IFRSs") issued by the International Accounting Standards Board (the "IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB which are or have become effective.

IAS 39 & IFRS 7 (Amendments)	Reclassification of Financial Assets
IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

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

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs May 2008[1]
IFRSs (Amendments)	Improvements to IFRSs April 2009[2]
IAS 1 (Revised)	Presentation of Financial Statements[3]
IAS 23 (Revised)	Borrowing Costs[3]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
IAS 39 (Amendment)	Eligible hedged items[4]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
IFRS 3 (Revised)	Business Combinations[4]
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[3]
IFRS 8	Operating Segments[3]
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives[5]
IFRIC 13	Customer Loyalty Programmes[6]

IFRIC 15	Agreements for the Construction of Real Estate[3]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[7]
IFRIC 17	Distributions of Non-cash Assets to Owners[4]
IFRIC 18	Transfers of Assets from Customers[8]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate

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

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

[5] Effective for annual periods ending on or after 30 June 2009

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

[7] Effective for annual periods beginning on or after 1 October 2008

[8] Effective for transfers on or after 1 July 2009

The application of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition date is on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary. The directors of the Company anticipate that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENTAL INFORMATION

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

Primary report segment - geographical segments

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

	2008 *RMB'000*	**2007** *RMB'000*
Revenue		
- PRC	2,684,940	1,590,587
- Europe	414,686	127,308
- Others	339,594	186,921
	3,439,220	1,904,816

	2008	2007
	RMB'000	*RMB'000*
Segment result		
- PRC	707,363	411,939
- Europe	106,736	31,663
- Others	87,408	46,489
	901,507	490,091
Other income, gains and loss	293,567	175,962
Finance costs	(28,693)	(33,017)
Share of results of associates	(1,051)	(3,628)
Share of results of jointly controlled entities	10,892	—
Unallocated expenses	(411,739)	(305,060)
Profit before tax	764,483	324,348
Income tax expense	(71,831)	(17,904)
Profit for the year	692,652	306,444
Assets and liabilities		
Segment assets		
- PRC	752,925	376,542
- Europe	22,902	1,847
- Others	192,613	62,964
	968,440	441,353
Unallocated assets	7,509,416	4,344,227
Consolidated total assets	8,477,856	4,785,580

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

During the year, included in allowance for doubtful debts of RMB1,745,000, RMB41,000 and RMB450,000 were allocated in the PRC, Europe and others respectively (2007: RMB3,031,000, RMB1,000 and RMB452,000). Except allowance for doubtful debts, no geographical segment for other information is disclosed as additions of property, plant and equipment and intangible assets are substantially in the PRC. No carrying amount of segment assets by geographical location of the assets is disclosed as all of the production facilities of the Group are located in the PRC.

4. OTHER INCOME/OTHER GAINS AND LOSS

	2008	2007
	RMB'000	*RMB'000*
Other income		
Bank interest income	43,372	49,932
Government grants (Note)	12,935	8,124
Sales of scrap materials	3,351	8,222
Gain on disposal of property, plant and equipment	915	—
Interest income arising from subscription monies in relation to global offering of the Company's shares	—	119,811
Others	2,686	2,468
	63,259	188,557
Other gains and loss		
Gain on fair value change on held-for-trading investments	1,555	3,751
Gain on repurchase of convertible bonds	107,941	—
Gain on fair value change on convertible bonds	522,897	—
Loss on fair value change on derivative financial instrument	(385,799)	—
	246,594	3,751

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

5. FINANCE COSTS

	2008	2007
	RMB'000	*RMB'000*
Interests on bank borrowings wholly repayable within five years	28,693	47,139
Less: amounts capitalised	—	(14,122)
	28,693	33,017

Borrowing cost capitalized in 2007 arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.07% to expenditure on qualifying assets.

6. INCOME TAX EXPENSE

	2008 *RMB'000*	2007 *RMB'000*
PRC enterprise income tax		
- Current year	76,241	23,527
- Overprovision in respect of prior year	(799)	(783)
- Other tax benefit	(17,841)	(6,239)
	57,601	16,505
Deferred tax		
- Current year	14,067	1,992
- Attributable to a change in tax rate	163	(593)
	71,831	17,904

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for all the Company's PRC subsidiaries from 1 January 2008.

Taxation arising in the PRC is calculated at 25% (2007: 33%) on the estimated assessable profit of those subsidiaries that are subject to Enterprise Income Tax ("EIT") in the PRC, except for certain PRC subsidiaries which are exempted from EIT in accordance with the approval from the relevant tax bureaus.

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

Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed") and Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine") are approved for 3 years as enterprises that satisfied the condition as high technology development enterprises and are subject to a preferential tax rate of 15% in 2007 and 2008 respectively.

Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("NGC") and Nanjing Gaote Gear Box Manufacturing Co., Ltd. are entitled to a 50% relief from the Foreign Enterprise Income Tax in the current year (2007: exempted).

The New Law imposes withholding tax upon the distribution of the profits earned by the PRC subsidiaries on or after 1 January 2008 to their shareholders. Deferred tax of approximately RMB12,695,000 has been recognised in the consolidated financial statements in respect of the temporary differences attributable to such undistributed profits.

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

7. PROFIT FOR THE YEAR

	2008	2007
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors' emoluments	312,405	242,225
Less: staff cost included in research and development costs	(24,664)	(9,661)
	287,741	232,564
Auditor's remuneration	4,720	4,250
Allowance for inventories	483	4,216
Amortisation of intangible assets (included in administrative expenses)	15,569	9,312
Cost of inventories recognised as an expense	2,446,577	1,347,535
Depreciation of property, plant and equipment	145,185	84,011
Expenses relating to listing of shares (included in administrative expenses)	—	24,840
Exchange loss, net (included in other expenses)	37,012	54,296
(Gain) loss on disposal of property, plant and equipment	(915)	4,753
Impairment loss on trade and other receivables	2,236	3,484
Loss on written-off of intangible assets	—	1,225
Release of prepaid lease payments	2,732	1,069
Transaction costs on convertible bonds (included in other expenses)	34,935	—

8. DIVIDENDS

	2008	2007
	RMB'000	*RMB'000*
Dividends recognised as distribution during the year:		
Dividend of HK8 cents per share as the final dividend for 2007	87,568	—
Dividend of US$40.565, equivalent to RMB313.97 per ordinary share as the final dividend for 2006	—	34,789
	87,568	34,789

The final dividend of HK25 cents or equivalent to RMB22 cents (2007: HK8 cents or equivalent to RMB7 cents) per share has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. EARNINGS PER SHARE

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

	2008	2007
	RMB'000	*RMB '000*
Earnings		
Earnings for the purposes of basic earnings per share		
Profit for the year attributable to equity holders of the Company	692,415	306,693
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds (note)	(522,897)	
Earnings for the purposes of diluted earnings per share	169,518	

Note: The fair value changes on convertible bonds of RMB522,897,000 is adjusted out of profit for the year in the calculation of diluted earnings per share to reflect the dilutive effect of full conversion of convertible bonds assuming conversion from the date of issue. Such conversion does not exist as no convertible bonds has been converted up to 31 December 2008.

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	1,245,000	1,066,151
Effect of dilutive potential ordinary shares:		
Share option	362	
Convertible bonds	72,036	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,317,398	
Earnings per share		
- Basic (RMB)	0.56	0.29
- Diluted (RMB) (note)	0.13	N/A

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

Note: The fair value changes on convertible bonds of RMB522,897,000 is adjusted out of profit for the year in the calculation of diluted earnings per share to reflect the dilutive effect of full conversion of convertible bonds assuming conversion from the date of issue. Such conversion does not exist as no convertible bonds has been converted up to 31 December 2008.

For the purpose of assessing the performance of the Group, management of the Company is of the view that the profit for the year should be adjusted for fair value changes on convertible bonds and derivative financial instrument in arriving at "adjusted profit attributable to the Company's shareholders". A reconciliation of profits is as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Profit attributable to the Company's shareholders as shown in the consolidated income statement	692,415	306,393
Gain on fair value change on convertible bonds	(522,897)	
Loss on fair value change on derivative financial instrument	385,799	
Adjusted profit attributable to the Company's shareholders	555,317	
Earnings per share based on the adjusted profit attributable to the Company's shareholders:		
- Basic (RMB)	0.45	
- Diluted (RMB)	0.42	

The denominators used are the same as those detailed for basic and diluted earnings per shares.

10. TRADE AND OTHER RECEIVABLES

	2008	**2007**
	RMB'000	*RMB'000*
Notes receivable	388,274	165,707
Accounts receivables	613,941	307,185
Less: allowance for doubtful debts	(33,775)	(31,539)
Total trade receivables	968,440	441,353
Advances to suppliers	277,302	157,230
Value added tax recoverable	29,628	24,609
Others	18,876	15,305
Total trade and other receivables	1,294,246	638,497

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

	2008	**2007**
	RMB'000	*RMB'000*
0 - 90 days	849,611	350,997
91 - 120 days	47,207	11,422
121 - 180 days	17,350	15,990
181 - 365 days	24,632	46,783
Over 365 days	29,640	16,161
	968,440	441,353

11. TRADE AND OTHER PAYABLES

	2008	**2007**
	RMB'000	*RMB'000*
Account payables	562,879	285,416
Notes payable (Note)	572,875	313,232
Total trade payables	1,135,754	598,648
Advances from customers	679,694	423,592
Purchase of property, plant and equipment	139,048	76,052
Payroll and welfare payables	49,738	23,524
Accrued expenses	4,542	4,319
Value added tax payable	7,020	5,276
Others	33,144	24,663
	2,048,940	1,156,074

Note: Notes payable are secured by the Group's own assets as set out in note 15.

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

	2008	**2007**
	RMB'000	*RMB'000*
0 - 30 days	984,310	492,355
31- 60 days	69,915	57,283
61 - 180 days	55,851	25,533
181 - 365 days	15,417	11,782
Over 365 days	10,261	11,695
	1,135,754	598,648

The credit period on purchases of goods is 30-120 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

12. BORROWINGS

	2008	2007
	RMB'000	*RMB'000*
Bank loans	968,846	493,858
Bills discounted with recourse	391,666	—
	1,360,512	493,858
Carrying amount repayable:		
On demand or within one year	1,292,166	420,818
More than one year, but not exceeding two years	68,346	73,040
	1,360,512	493,858
Less: Amounts due within one year shown under current liabilities	(1,292,166)	(420,818)
Amounts due over one year	68,346	73,040

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

	2008	2007
	%	%
Fixed-rate borrowings	4.86-6.12	6.4319
Variable-rate borrowings	5.31-6.93	—

As at 31 December 2008, the Group's borrowings that are denominated in currencies other than RMB (the functional currency) are USD10,000,000, which is equivalent to RMB68,346,000 (2007: USD67,609,000, which is equivalent to RMB420,818,000). All other bank borrowings are denominated in RMB.

As at 31 December 2008, the Group had the loan facilities from banks of RMB2,909 million (2007: RMB1,578 million), of which RMB1,548 million (2007: RMB1,317 million) was not yet drawn down. Among the undrawn loan facilities, RMB994 million and RMB554 million will mature in 2009 and 2010 respectively.

13. SHARE CAPITAL

		Number of shares *(in thousand)*	Amount *US$'000*	Equivalent to *RMB'000*
Ordinary shares of US$0.01 each				
Authorised:				
At 1 January 2007		90,000	900	7,053
Increase in authorised share capital	(i)	2,910,000	29,100	226,980
At 31 December 2007 and 2008		3,000,000	30,000	234,033
Issued and fully paid:				
At 1 January 2007		145	1	12
Issue of new shares	(ii)	8	—	—
Allotment upon capitalisation	(iii)	899,847	8,999	68,395
Issue by global offering	(iv)	345,000	3,450	26,222
At 31 December 2007 and 2008		1,245,000	12,450	94,629

Notes:

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

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

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

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

14. CAPITAL COMMITMENTS

	2008 *RMB'000*	2007 *RMB'000*
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	1,656,493	942,344

15. PLEDGE OF ASSETS

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

	2008 *RMB'000*	2007 *RMB'000*
Bank deposits	502,696	177,265

16. RELATED PARTY DISCLOSURES

(I) Related party transactions

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

Name of company	**Relationship**	**Nature of transactions**	**2008** *RMB'000*	**2007** *RMB'000*
ZF Nanjing	Associate	Sales of goods	44,776	10,714
		Rental income	1,186	853
		other income	248	136
Nanjing Yuhuatai	Holding company of minority shareholder of NGC	Rental expenses	574	907
Jiangsu Hongsheng	Jointly controlled entity	Sales of goods	20,459	—
		Purchase of goods	25,450	—

(II) Related party balance

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

(III) Acquisition of subsidiaries

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

(IV) Compensation of key management personnel

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. For the year ended 31 December 2008, the Group recorded total sales revenue of approximately RMB3,439,220,000, representing a substantial increase of 80.6% over 2007. The gross profit margin recorded for the year was 28.8%. Profit attributable to equity holders of the Company was approximately RMB692,415,000, representing a significant increase of 125.8% over last year. Net profit from principal operations amounted to approximately RMB549,741,000, representing an increase of 106.7% over last year.

As at 31 December 2008, the basic earnings per share attributable to the ordinary equity holders of the Company amounted to RMB0.56, based on profits attributable to equity holders of the Company during the period.

PRINCIPAL BUSINESS REVIEW

WIND GEAR TRANSMISSION EQUIPMENT

Great progress has been made in the research and development of large wind gear transmission equipment and the numbers of our customers and orders have increased significantly

The wind gear transmission equipment is a new major product that has been developed by the Company in recent years. Sales revenue of wind gear transmission equipment business surged approximately by 151.0% to approximately RMB1,800,766,000 (2007: RMB717,370,000) as compared with last year, and capacity was 3,500 MW (2007: 1,300 MW). The increase was mainly attributable to the proactive policies and measures adopted by the PRC government to encourage the use of renewable energy and green power generation. For example, the Renewable Energy Law of the PRC promulgated in 2006 introduces various supporting measures to promote the development and use of renewable energy including wind power.

The Group is a leading supplier of wind gear transmission equipment in the PRC. By leveraging its strong research, design and development capabilities, the Group's research and development has achieved good results. Of these, the 1.5 MW and 2 MW wind gear transmission equipment have successfully passed various technical tests to reach an international advanced technical level and are well recognised by our customers. In addition, the Group has achieved significant progress in the research and development of 2.5 MW and 3 MW wind gear transmission equipment, which will bring a larger flow of business to the Group.

Currently, the Group's customers are from the wind power industry, including major wind turbine manufacturer in the PRC, as well as renowned international wind turbine manufacturer such as GE Energy, REPower, Nordex and etc. With the Group's increasingly global operation, the Group will attract more international wind turbine manufacturer as customers, which has already resulted in the substantial increase in the orders of wind gear transmission equipment.

MARINE GEAR TRANSMISSION EQUIPMENT

Dramatic sales increase in the overseas markets

The marine gear transmission equipment is one of the new products that have been developed by the Company in recent years. In respect of the marine gear transmission equipment business, all sales were generated from overseas orders. In face of the global financial crisis, the Company is actively expanding its presence in the domestic market.

Through its further cooperation with ZF China Investment Co., Ltd. ("ZF China"), the Company further strengthened its efforts in the sale of marine gear transmission equipment to international markets, which contributed to a significant increase in sales orders of marine gear transmission equipment in the first half year of 2008. Meanwhile, the Group increased its investment in fixed assets and expanded its production capacity to meet the market demands. During the year, turnover of marine gear transmission equipment increased by approximately 3 times to approximately RMB397,954,000 (2007: RMB135,646,000).

TRANSMISSION EQUIPMENT FOR HIGH-SPEED TRAINS AND URBAN LIGHT RAILS

Results have been achieved in the research and development with promising market potential

Development of high-speed locomotives and urban light rails locomotives as environmental-friendly transportation vehicles has become a major world trend and is believed to have promising potential in the development of the industry. The development of inter-city transport in the PRC, one of the most heavily populated countries in the world, will provide a tremendous market for high-speed locomotive and urban light rail transportation operations. The high-speed railway transportation network in Europe is expected to treble by 2020. In order to capture this tremendous business opportunity, the Group conducted research and development of transmission equipment for high-speed locomotives and urban light rails, and passed the product quality certification conducted by ALSTOM Group in April 2008. In addition, such equipment has been installed in the high-speed trains in places such as Beijing, Shanghai and Nanjing for field testing at the end of 2008. The Group will further expand both their domestic and overseas markets, making this a new source of economic growth for the Group.

TRADITIONAL TRANSMISSION PRODUCTS

Market sales of new products remain strong

Our traditional gear transmission equipment products are provided for customers from industries including metallurgy, construction materials, traffics, transportation, petrochemicals, aerospace and mining. During the year, sales revenue of high-speed heavy-load gear transmission equipment, gear transmission equipment for construction materials, general purpose gear transmission equipment, gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills and other mechanical transmission equipment increased by 0.2%, 27.3%, 15.7%, 15.3% and 10.0% to approximately RMB28,892,000 (2007: RMB28,846,000), RMB461,011,000 (2007: RMB362,235,000), RMB166,600,000 (2007: RMB143,995,000), RMB338,521,000 (2007: RMB293,498,000) and RMB245,476,000 (2007: RMB223,226,000) respectively.

Against a background of macro-economic control imposed by the PRC government, the Group's gear transmission equipment for construction materials and general purpose gear transmission equipment still maintained steady sales growth, primarily due to the research and development of new products. With a focus on energy-saving and environmental protection, the Group has formulated an approach whereby our development is driven by the development of new products. Vertical roller press grinding mills, which have been developed by the Group in recent years, can save approximately 30% more energy than traditional transmission products. Thus such products sell well in the market. In response to products upgrade in the metallurgy industry, the Group has proactively developed complete sets of transmission equipment such as cold-rolled, hot-rolled, strip and bar, wire-rolling and plate-rolling mills. Such products were well received by the market.

LOCAL AND EXPORT SALES

During the year, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. However, with the efforts put in by Group companies to expand our businesses in overseas markets, overseas sales amounted to approximately RMB754,280,000 (2007: RMB314,229,000), accounting for 21.9% of total sales and representing an increase of 140.0% over last year. At present, the customer base for exports of the Company extends to the U.S., India, Japan and Europe etc. During the year, increase in export sales was principally due to the increase in exports of wind gear transmission equipment and marine gear transmission equipment.

PATENTED PROJECTS

The business of the Group is of high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging on its advanced technology and premium quality, the Company has obtained 92 national, provincial and municipal technology advancement awards. 22 of our products have been recognised as high-technology products and nearly 50 products have obtained or are pending patent approval. The Company was the first producer to adopt ISO1328 and ISO06336 international standards. We were nominated as a enterprise for the 863 State Plan and a CIMS Application Model Enterprise. During the year 2007, the Company has passed ISO14001:2004 environmental management system certification and BV statutory certification of ships issued by Bureau Veritas; the branches of its welding plants have passed CCS of the PRC, RL of Britain, GL of Germany, as well as BV statutory certification of ships in France.

FINANCIAL PERFORMANCE

In the financial year of 2008, the Group's results gradually reflected the success of the Group's investment, the vision of the management team as well as the Group's advantage as a leading mechanical transmission equipment manufacturer. Overall sales revenue increased by 80.6% to approximately RMB3,439,220,000.

	Revenue	
	Year ended 31 December	
	2008	**2007**
	RMB'000	*RMB'000*
High-speed Heavy-load Gear Transmission Equipment	28,892	28,846
Gear Transmission Equipment for Construction Materials	461,011	362,235
General Purpose Gear Transmission Equipment	166,600	143,995
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	338,521	293,498
Wind Gear Transmission Equipment	1,800,766	717,370
Marine Gear Transmission Equipment	397,954	135,646
Others	245,476	223,226
	3,439,220	1,904,816

REVENUE

The Group's revenue during the period under review was approximately RMB3,439,220,000, an increase of 80.6% as compared with last year. Such increase was mainly due to the continued growth in our sales volume during the period under review. In particular, this was mainly attributable to an increase of 151.0% in sales revenue of wind gear transmission equipment from approximately RMB717,370,000 for the year ended 31 December 2007 to approximately RMB1,800,766,000 for the year ended 31 December 2008, a substantial increase of approximately 2 times in sales revenue of marine gear transmission equipment from approximately RMB135,646,000 for the year ended 31 December 2007 to approximately RMB397,954,000 for the year ended 31 December 2008 and increases of 27.3%, 15.3% and 15.7% in traditional transmission products including gear transmission equipment for construction materials, gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills and general purpose gear transmission equipment from approximately RMB362,235,000, approximately RMB293,498,000 and approximately RMB143,995,000 for the year ended 31 December 2007 to approximately RMB461,011,000, approximately RMB338,521,000 and approxmately RMB166,600,000 for the year ended 31 December 2008 respectively.

GROSS PROFIT MARGIN AND GROSS PROFIT

The Group's consolidated gross profit margin decreased slightly by 0.2% during the period under review mainly as a result of the changes in product sales structure. As at 31 December 2008, revenue from sales of wind gear transmission equipment accounted for more than 50% of the total sales revenue. Its consolidated gross profit for the year ended 31 December 2008 reached approximately RMB992,160,000 (2007: RMB553,065,000), an increase of 79.4% as compared with last year. This was mainly attributable to increased sales of wind power generation gear transmission equipment and marine gear transmission equipment. The gross profits of wind power generation gear transmission equipment and marine gear transmission equipment increased from approximately RMB197,283,000 and RMB30,015,000 for the year ended 31 December 2007 to approximately RMB499,247,000 and RMB90,478,000 for the year ended 31 December 2008, representing an increase of 153.1% and 201.4% respectively.

OTHER INCOME, OTHER GAINS AND LOSS

The total amount of other income of the Group during the year ended 31 December 2008 was approximately RMB63,259,000 (2007: RMB188,557,000), a decrease of 66.5% as compared with last year. It was mainly due to an amount of approximately RMB119,811,000 interest income arising from the subscription monies in relation to global offering of the Company's shares in 2007. Other income are mainly comprised of bank interest income and government grant.

Other gains and loss in total of RMB246,594,000 (2007: RMB3,751,000) are mainly comprised of fair value gain of convertible bonds, fair value loss of equity swap and gain from the repurchase of convertible bonds.

DISTRIBUTION COSTS

The distribution costs of the Group for the year ended 31 December 2008 were approximately RMB106,939,000 (2007: RMB79,320,000), representing an increase of 34.8% over last year. The increase was mainly attributable to increased sales revenue. However, the percentage of distribution costs to sales revenue for the year ended 31 December 2008 was 3.1% (2007: 4.2%), representing a decrease of 1.1% to sales revenue over last year. This was mainly attributable to a decrease in some sales expenses such as marketing expenses and salaries of sales personnel as a result of strong market demand for wind gear transmission equipment.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased from approximately RMB227,914,000 in 2007 to approximately RMB284,340,000 in 2008, mainly due to the share-based payment expenses of approximately RMB30,030,000, the increase in number of staff and staff costs, and the intermediary professional fee incurred after the listing of the Company. The percentage of administrative expenses to sales revenue was 8.3%, representing a decrease of 3.7% to sales revenue over last year.

OTHER EXPENSES

Other expenses of the Group during the period under review were approximately RMB71,947,000 (2007: RMB54,296,000, included in the administrative expenses for 2007), which comprised of net loss on foreign exchange of approximately RMB37,012,000 (2007: RMB54,296,000) and expenses on issuance of convertible bonds of approximately RMB34,935,000 (2007: nil).

FINANCE COSTS

Throughout 2008, finance costs of the Group were approximately RMB28,693,000 (2007: RMB33,017,000), a decrease of 13.1% as compared with last year, which was mainly due to the reason that increase in bank loans did not occur until the fourth quarter during the period under review.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2008, the equity attributable to equity holders of the Company amounted to approximately RMB3,731,086,000 (2007: RMB3,104,545,000). The Group had total assets of approximately RMB8,477,856,000 (2007: RMB4,785,580,000), an increase of approximately RMB3,692,276,000, or 77.2%, as compared with that at the beginning of the year. Total current assets of the Group were approximately RMB4,861,156,000, representing an increase of 60.2% as compared with 31 December 2007 and accounting for 57.3% of total assets. Total non-current assets were approximately RMB3,616,700,000 (2007: RMB1,750,717,000), representing an increase of approximately RMB1,865,983,000 and accounting for 42.7% of the total assets.

As at 31 December 2008, total liabilities of the Group were approximately RMB4,743,211,000 (2007: RMB1,677,713,000), which represented an increase of 182.7% as compared with that at the beginning of the year. Total current liabilities were approximately RMB3,394,754,000 (2007: RMB1,592,449,000), representing an increase of approximately RMB1,802,305,000 as compared with that at the beginning of the year whereas total non-current liabilities were approximately RMB1,348,457,000 (2007: RMB85,264,000), representing an increase of approximately RMB1,263,193,000 as compared with that at the beginning of the year.

As at 31 December 2008, total net current asset of the Group was RMB1,466,402,000 (2007: RMB1,442,414,000), representing an increase of RMB23,988,000 as compared with that at the beginning of the year.

As at 31 December 2008, total cash and bank balances of the Group were approximately RMB2,165,905,000 (2007: RMB1,693,411,000), that includes pledged bank deposits of approximately RMB502,696,000 (2007: RMB177,265,000), and restricted cash of approximately RMB981,566,000 (2007: nil). These restricted cash represents an amount of approximately HK$1,113,013,000 (equivalent to approximately RMB981,566,000) payable by the Group in respect of the Equity Swap entered with Morgan Stanley & Co. International plc on 22 April 2008.

As at 31 December 2008, the Group had total bank loans of approximately RMB1,360,512,000 (2007: RMB493,858,000), of which short-term bank loans were approximately RMB1,292,166,000 (2007: RMB420,818,000), accounting for approximately 95.0% of the total bank loans. The short-term bank loans are repayable within one year. The Group's short-term bank loans bear fixed interest rates and the average effective interest rate ranges from 4.86% to 6.12% (2007:6.43%).

Following the share offer on 4 July 2007, the Group recorded a net cash inflow from the share offer of approximately HK$2.4 billion, and issued zero coupon convertible bonds of RMB1,996,300,000 during the period under review. The directors of the Company believe that the Group will have a sound and strong financial position as well as sufficient resources for meeting its working capital requirements and foreseeable capital expenditure.

GEARING RATIO

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 35.1% in 2007 to 55.9% in 2008.

CAPITAL STRUCTURE

CONVERTIBLE BONDS

On 14 May 2008, the Company issued the RMB denominated USD settled zero coupon convertible bonds due 2011 in an aggregate principal amount of RMB1,996,300,000 (equivalent to approximately US$286,000,000) to Morgan Stanley & Co. International plc (as the lead manager) which is detailed as below:

(i) Reasons for the convertible bonds issue: to raise further capital for the purposes as set out in the paragraph headed "Use of Proceeds" below whilst enlarging the shareholder base of the Company.

(ii) Type of the convertible bonds: convertible into ordinary shares of the Company.

(iii) Principal amount of the bonds: the aggregate principal amount of the bonds is RMB1,996.3 million.

(iv) Issue price: 100% of the principal amount of the bonds.

(v) Initial conversion price: HK$17.78 per share, subject to terms of the bonds (please refer to the announcements dated 24 April 2008 and 14 May 2008 respectively for details).

(vi) Net proceeds: approximately US$280 million.

(vii) Use of proceeds: approximately US$142.8 million (representing approximately 51.0% of the net proceeds) will be applied to enter into an equity swap contract, and the remaining approximately US$137.2 million (representing approximately 49.0% of the net proceeds) will be used to further enhance production capacity till 2010 to meet the increasing demands for gear boxes and gear transmission equipment from various industries such as wind power generation, marine and rail transportation, and applied as capital expenditure and daily working capital (including payment for imported equipment and components).

During the year, the Company repurchased and cancelled the convertible bonds in a total principal amount of RMB848,200,000 by way of over-the-counter transactions, at a total consideration of US$77,127,408 (equivalent to approximately RMB526,988,000) which is detailed as below:

Month of repurchase in 2008	Principal amount repurchased	Repurchase price (RMB) (a) highest	(b) lowest	Total consideration paid (RMB/US$)
October	286,800,000	0.68	0.55	169,890,000/24,856,334
November	517,400,000	0.63	0.62	325,418,000/47,646,392
December	44,000,000	0.72	0.72	31,680,000/4,624,682
Total	848,200,000			526,988,000/77,127,408

As at 31 December 2008, the outstanding principal amount of the convertible bonds amounted to approximately RMB1,148,100,000. Based on the initial conversion price of HK$17.78 per share and assuming full conversion of the bonds at the initial conversion price, the number of conversion shares falling to be issued in connection with the outstanding bonds will be 72,003,294 ordinary shares, representing approximately 5.8% of the existing issued share capital of the Company and approximately 5.5% of the issued share capital of the Company as enlarged by the full conversion of the bonds. As at 31 December 2008, there was no exercise of rights of redemption or conversion by any holders of the bonds.

As at 31 December 2008, gains on fair value change of such bonds was approximately RMB522,897,000.

EQUITY SWAP

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds, the Company entered into a cash settled equity swap transaction with Morgan Stanley & Co. International plc (the equity swap counterparty) for the Company's shares up to a value of HK$1,113,013,000 (equivalent to approximately RMB981,566,000). Further details for the equity swap were set out in the Company's announcement dated 24 April 2008. As at 31 December 2008, loss on the fair value changes on such equity swap was approximately RMB385,799,000.

The Group's loans were mainly denominated in Renminbi. As at 31 December 2008, the currency units of the Group's cash and cash equivalents were approximately 48.2% in Hong Kong dollars, 36.1% in Renminbi and 15.7% in total in U.S. dollars, Euros and Swiss Francs and etc.

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

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

The net proceeds from the issue of new shares upon the listing of the Company on the Stock Exchange on 4 July 2007 amounted to approximately HK$2.4 billion, after deducting related expenses. In 2007, approximately RMB1.25 billion were used in accordance with the proposed use as set out in the Prospectus published by the Company on 20 June 2007(the "Prospectus"). In 2008, the remaining net proceeds was principally used in the following ways in accordance with the proposed use as set out in the Prospectus:

— approximately RMB857,000,000 was used for research, development and further production capacity expansion in relation to wind gear transmission equipment;

— approximately RMB52,972,000 was used for research, development and production of marine gear transmission equipment and other marine vessel related products;

— approximately RMB21,500,000 was used for research, development and production of mechanical transmission equipment for light rails and high-speed rails; and

— approximately RMB549,000,000 was invested in the suppliers manufacturing critical components (such as forged steel) for our products.

The Company has applied all the proceeds from the listing in the proposed projects stated in the prospectus.

PROSPECTS

Looking forward, the Company will capture opportunities to exploit the wind power product market and further enhance the development of new products to explore new opportunities. Meanwhile, the Company will capitalize on its cost advantages to further expand the markets home and abroad and leverage on its cooperation with General Energy Company and other international partners, such as VESTAS, NORDEX and REPOWER, to explore more overseas markets including rapid-developing countries such as India. In the long run, we look forward to increasing overseas sales.

The Company will reinforce the research and development activities in relation to the wind gear transmission equipment business and further expand the joint development and manufacture of 2.5MW wind gear transmission equipment with General Energy Company. It also starts to develop wind gear transmission equipment of 3MW. The Group will continue to raise its research and development capability, and improve the technological level of its existing production lines to achieve higher operation efficiency. This will enable the Group to offer more transmission equipment products that may be applied in various industries, consolidate its position and increase its market share in the global market. Besides, the Company will strive to increase the production capacity of wind power generation equipment to 6,000MW in 2009.

The Company is a leading transmission equipment manufacturer in the PRC and a fundamental equipment manufacturer supported by the State, with its products extensively applied in various industries. In view of the global financial crisis, the Chinese government plans to invest RMB4 trillion to stimulate domestic demand and have introduced policies to encourage the development of ten major industries, which will benefit the Company. Development of the renewable energy, energy-saving and environment protection, infrastructure construction and equipment manufacturing industries will bring good market opportunities for the Company. Apart from wind power equipment, driven by the investments made by the State in infrastructure construction, the cement industry and the energy-saving and environment protection industry are also gradually recovering and the grinding equipment products of the Company will maintain a growth at a certain rate. Policy guidelines regarding the metallurgy industry to phase out the outdated and promote energy-saving and technical renovation will also bring market opportunities for the Company. As such, the metallurgical transmission equipment market will also maintain a growth at a certain rate. Besides, the development of rail transportation will make the high speed locomotive transmission equipment a new source of economic growth of the Company.

The Company has carried out research on the rail transportation market for many years. With our strong research and development and production capacity, we have completed the research and development of relevant products. Such products have been launched for trial operation and are currently operating in good condition and will be put into mass production.

In respect of marine transmission equipment, the Company achieved rapid growth in the past two years. However, due to the impact brought by the shipbuilding industry, it is expected that this market segment can hardly maintain a growth in 2009. Currently, the Company is endeavouring to explore the Chinese market, with a view to maintaining a sales level equivalent to that in 2008.

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

In respect of investment, the Company will expand its production as scheduled to achieve its objective to expand its wind power production capacity to 9,000 MW by 2010. Overall, the Company will expect to maintain a growth at a certain rate in 2009 so as to create better benefits for its shareholders.

The Company is full of confidence in securing orders in 2009. Orders for wind power gear transmission equipment have reached 9,000MW. Orders for marine transmission equipment also amounted to approximately RMB300,000,000. Sales revenue from traditional products is estimated to have a growth of approximately 15% to 20%.

OTHER SUPPLEMENTARY INFORMATION

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

During the year, a final dividend of HK8 cents (equivalent to approximately RMB7 cents) per share (2007: USD40.565 (equivalent to approximately RMB313.97)) for 2007 has been paid to shareholders.

The Board has recommended payment of a final dividend of HK25 cents per share for the year ended 31 December 2008 to be paid on around 3 July 2009 to shareholders whose names appear on the register of members of the Company on 19 June 2009 subject to shareholders' approval. The register of members of the Company will be closed from Monday, 15 June 2009 to Friday, 19 June 2009, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 12 June 2009.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

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

As at 31 December 2008, the balance of the Hong Kong dollar net proceeds which the Company received from the global offerings on 4 July 2007 and the net proceeds of approximately US$280,000,000 derived from the issue of convertible bonds on 14 May 2008 were mostly converted into Renminbi, while the remaining cash denominated in U.S. dollars, Euro and Swiss Francs accounted for approximately 15.7% of the total cash and cash equivalents. In addition, the Group's bank borrowing denominated in U.S. dollars as at 31 December 2008 was approximately US$10,000,000. The Group may thus be exposed to foreign exchange risks.

The net losses of foreign exchange recorded by the Group for the year was approximately RMB37,012,000, which was due to the appreciation of Renminbi against major foreign currencies in 2008. In light of the above, the Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to foreign exchange risks in 2009.

INTEREST RATE RISK

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

EMPLOYEES AND REMUNERATTON POLICY

As at 31 December 2008, the Group employed approximately 3,993 employees (2007: 2,856). Staff cost of the Group for 2008 approximated to RMB312,405,000 (including RMB30,030,000 share-based payment expenses) (2007: RMB242,225,000). The cost included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan, etc.

The salary levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial performance. In addition to salaries, the Group provides housing allowances to some of its employees. The Group also offers incentive programmes to encourage its employees to take initiatives and rewards employees who have made valuable contributions or achieved technical breakthroughs. The Group's employees are rewarded for their creativity achievements in technologies and technical skills, management of information, product quality and enterprise management.

The Group has adopted incentive programmes (including the Share Option Scheme) to encourage employee performance and a range of training programmes for the development of its staff.

The Group's criteria in relation to the determination of directors' remuneration take into consideration factors including but not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

SIGNIFICANT INVESTMENT HELD

Nanjing High Accurate Drive Equipment Manufacturing Corporation Ltd. ("Nanjing Drive"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Mr. Ou Hongyuan and Ms. Shao Yanping (who are third parties independent of the Group and connected persons of the Group) on 30 June 2008, and agreed to contribute approximately RMB548,619,000 in Jiangsu Hongsheng Heavy Industries Group Co., Ltd. ("Jiangsu Hongsheng"). Upon completion of the capital contribution, Nanjing Drive is interested as to 50.01% in Jiangsu Hongsheng. The transaction is a disclosable transaction under the Listing Rules. For details of the joint venture agreement, please refer to the announcement of the Company dated 3 July 2008 and circular dated 22 July 2008.

During the period under review, the Company generated an income of approximately RMB8,256,000 from its investment in Jiangsu Hongsheng.

Save as disclosed above, there was no significant investment held by the Group as at 31 December 2008.

MATERIAL ACQUISITION AND DISPOSAL

On 30 June 2008, Nanjing Drive, a wholly-owned subsidiary of the Company, entered into a equity transfer agreement with Nanjing High Speed Gear Industrial Development Co., Ltd. (南京高速齒輪產業發展有限公司) ("NGID") for the acquisition of 69.98% interests in Nanjing Yongfa Marine Equipment Co., Ltd. (南京永發船舶設備製造有限公司) held by NGID at a consideration of RMB28,200,000. The transaction is a connected transaction under the Listing Rules. For details of the equity transfer agreement, please refer to the announcement of the Company dated 3 July 2008.

Save as disclosed above, during the period under review, there was no material acquisition and disposal of subsidiaries and associated companies.

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2008 except for the deviation from Code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries of all directors by the Company, all directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2008.

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

As at 31 December 2008, neither the Company nor any of its subsidiaries has purchased, redeemed or cancelled any of the Company's listed securities.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2008 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu in this announcement.

By order of the Board of
China High Speed Transmission Equipment Group Co., Ltd.
HU YUEMING
Chairman

Hong Kong, 17 April 2009

As at the date of this announcement, the executive directors are Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Lu Xun, Mr. Li Shengqiang, Mr. Liu Jianguo and Mr. Liao Enrong; the non-executive director is Mr. Zhang Wei; and the independent non-executive directors are Mr. Jiang Xihe,Mr. Zhu Junsheng, and Mr. Chen Shimin.

* *For identification purposes only*