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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)

**AMENDMENT AND RESTATEMENT
TO THE EQUITY SWAP AND
POSSIBLE OFF-MARKET REPURCHASE OF SHARES**

Independent Financial Adviser to the independent board committee



SOMERLEY LIMITED

On 22 April 2008 the Company entered into an Equity Swap with the Equity Swap Counterparty. Under the current terms of the Equity Swap, any settlement under the Equity Swap shall be in cash only. The Board is pleased to announce that on 6 November 2009, the Company entered into an amended and restated Equity Swap with the Equity Swap Counterparty. Under the amended and restated Equity Swap, the Company will be granted a Share Delivery Option as an alternative to cash settlement.

A circular containing, among other things, further details of the amended and restated Equity Swap, the advice of the independent financial adviser to the independent board committee, and a notice convening the EGM to be held to approve the amended and restated Equity Swap and other related matters, will be despatched to the shareholders in due course.

Background

On 22 April 2008, the Company entered into the Bonds Subscription Agreement with the Lead Manager, pursuant to which the Lead Manager agreed to subscribe and pay for the Bonds issued by the Company in an aggregate principal amount of RMB1,996.3 million (equivalent to approximately US\$286 million). Completion of the issue of the Bonds took place on 14 May 2008.

Original Terms of the Equity Swap

Concurrently with the execution of the Bonds Subscription Agreement, the Company entered into the Equity Swap with the Equity Swap Counterparty with respect to a notional number of 81,370,707 Shares. These notional Shares have a value of HK\$1,113,012,941.55 (equivalent to approximately US\$142.8 million) at the Initial Price of HK\$13.6783, equal to 50% of the face value of the Bonds. An equal amount (the “**Initial Exchange Amount**”) was paid to the Equity Swap Counterparty when the Equity Swap became effective on 14 May 2008.

Upon termination of the Equity Swap, under the original cash settlement terms, if the Final Price is higher than the Initial Price, the Company would receive a payment equal to the Initial Exchange Amount (to the extent relating to the notional Shares terminated under the Equity Swap) plus the excess of the Final Price over the Initial Price, multiplied by the number of Shares terminated (the “**Swap Gain**”). If the Initial Price is higher than the Final Price, the Company would receive a payment equal to Initial Exchange Amount (to the extent relating to the notional Shares terminated under the Equity Swap) minus the excess of the Initial Price over the Final Price, multiplied by the number of Shares terminated (the “**Swap Loss**”). Therefore, for every one Hong Kong dollar movement in the Company’s Share price, the unrealized gain / loss arising from the Equity Swap (gain if Share price goes up and loss if Share price goes down) is HK\$81,370,707. The maximum potential financial downside risk to the Company of the Equity Swap is, in the event the Company’s share price falls to zero, the Initial Exchange Amount, i.e. approximately HK\$1,113 million. Subject to the terms of the Equity Swap, the Final Price will be determined by reference to the arithmetic average of the volume weighted average price per Share on each Averaging Date in the relevant Averaging Period.

Both the Company and the Equity Swap Counterparty have the option to early terminate a portion of the Equity Swap equivalent to the terminated number of Bonds upon the occurrence of any of the following events (each an “**Optional Early Termination**”):

- (a) any holder of the Bonds validly exercises all or part of its conversion rights;
- (b) the Issuer validly exercises its option to mandatorily convert all or some only of the Bonds under the Bond Conditions; or
- (c) any Bonds become repayable prior to the Maturity Date by reason of the exercise by the Issuer of its call options or by reason of exercise by any holder of the Bonds of its put options under the Bond Conditions.

The Company's purpose in entering into the Equity Swap was to provide the Company with a hedge against an increase in its Share price above the Initial Price in the event that the Company undertook an on-market Share repurchase in the future. In addition, the Equity Swap allowed the Lead Manager to enter into, at the time of the Bond offering, hedging transactions to Bond investors (to which the Company is not a party) as such arrangements were expected to enhance Bond investors' appetite for the transaction and thus benefit the Company by helping with the initial marketing and pricing of the Bonds.

The Equity Swap was initially recognised on the books of the Company at fair value at the date the derivative contract was entered into and was and will be subsequently remeasured to its fair value at each balance sheet date. The fair value of the Equity Swap at date of the original Equity Swap was an asset of approximately RMB93,005,000, as determined by an independent valuer. As disclosed in the 2008 interim report of the Company, as at 30 June 2008, the fair value of Equity Swap was an asset of approximately RMB 214,574,000, with gain on the fair value changes of approximately RMB121,569,000. The fair value of Equity Swap as at 31 December 2008 as disclosed in the results announcement of the Company dated 17 April 2009 was a liability of approximately RMB292,794,000, with loss on fair value changes of approximately RMB385,799,000 from the date of the original Equity Swap. The resulting gain or loss is recognised as profit or loss immediately. On termination of the Equity Swap in part or in full, the difference between the carrying amount and the consideration received or paid by the Company under the Equity Swap will be recognised in its profit and loss statement. The fair value of the Equity Swap as a derivative contract will be determined on a yearly basis by an independent valuer. The independent valuer would normally determine the fair value based on, amongst other things, (i) the Company's Share price at the time of valuation; and (ii) historical volatility of the Company's Share price.

Additional Optional Early Termination Right

In announcements by the Company on 30 October 2008 and 5 May 2009, the Company and Equity Swap Counterparty entered into amendment confirmations to the Equity Swap dated 24 October 2008 and 4 May 2009, respectively. Subject to the provisions contained therein, the Company was granted an additional optional early termination right in respect of 68,758,000 Shares in total under the Equity Swap (exercisable only by the Company) by giving irrevocable notice to the Equity Swap Counterparty (the "**Additional Optional Early Termination Right**").

Partial Termination

In an announcement made by the Company on 5 May 2009, the Company announced that up to 4 May 2009, the Company and the Equity Swap Counterparty had undertaken the partial termination in respect of 68,758,000 Shares under the Equity Swap on the terms as modified from time to time and the major terms and conditions for the partial termination are set out below:

Terminated Number of Shares:	68,758,000
Average Final Price per Share (net of early termination fee and other costs and expenses):	HKD 12.8495
Total Net Amount payable by the Equity Swap Counterparty:	HKD 883,507,596.90 (i.e. Total amount payable by the Equity Swap Counterparty less early termination fee and other costs and expenses)
Average Net Amount per Share payable by the Equity Swap Counterparty:	HKD 12.8495 (i.e. Total net amount payable by the Equity Swap Counterparty divided by the terminated number of Shares)

After the partial termination as mentioned above, the Company would no longer have any Additional Optional Early Termination Right as referred to in the amendment confirmations mentioned above. The remaining notional number of Shares not yet terminated is 12,612,707 (i.e. the initial number of Shares underlying the Equity Swap reduced by the terminated number of Shares) and the remaining balance of the Initial Exchange Amount is HK\$172,520,390.16.

Share Delivery Option As An Alternative To Cash Settlement

On 6 November 2009, the Company and the Equity Swap Counterparty entered into the amended and restated Equity Swap pursuant to which only the Company shall have an option to require the Equity Swap Counterparty to settle a scheduled termination or Optional Early Termination of the remaining Equity Swap, in whole or in part, by way of the Share Delivery Option as an alternative to cash settlement. Such option to settle the Equity Swap by way of the Share Delivery Option is subject to (a) provision of a written representation by the Company to the Equity Swap Counterparty that any requisite corporate approvals have been obtained and there are no applicable laws, regulations, rules or other similar requirements (including

without limitation, any regulatory or stock exchange requirements) at such time that would make unlawful, or otherwise prohibit, any physical settlement, (b) the Company providing to the Equity Swap Counterparty, promptly upon request from the Equity Swap Counterparty, a confirmation letter from the Company's Hong Kong law counsel that no consents required to be obtained have not been obtained under the laws of Hong Kong, (c) the Company providing to the Equity Swap Counterparty, promptly upon request from the Equity Swap Counterparty, an opinion from the Company's Cayman Islands law counsel, in a form acceptable to the Equity Swap Counterparty, which, among other things, confirms that the Company's performance of its obligations under the Equity Swap does not conflict with or result in a breach of any law, public rule or regulation applicable to the Company in the Cayman Islands, and (d) the payment by the Company to the Equity Swap Counterparty of any Costs.

The terms of any cash settlement under the original terms of the Equity Swap remain unchanged and the amount to be cash settled, upon the Company's election for cash settlement, will be determined by reference to the difference between the Final Price and the Initial Price.

Under the amended and restated Equity Swap, the Company may elect to exercise the Share Delivery Option as an alternative to cash settlement. In the event that the Company elects to exercise the Share Delivery Option to settle a scheduled termination of the remaining Equity Swap in whole, the Equity Swap Counterparty will deliver to the Company the number of Shares specified in the Equity Swap as amended from time to time (i.e. 12,612,707 Shares), whereupon the Equity Swap Counterparty's obligation to repay the remaining proportional amount of the Initial Exchange Amount (i.e. HK\$172,520,390.16 to the Company shall be extinguished. In the event that the Company elects to exercise the Share Delivery Option to settle a partial Optional Early Termination of the Equity Swap, the Equity Swap Counterparty will deliver to the Company the terminated number of Shares, whereupon the Equity Swap Counterparty's obligation to repay to the Company a proportional amount of the Initial Exchange Amount shall no longer apply. In each case where the Company has elected for the Share Delivery Option to apply, the Shares to be delivered by the Equity Swap Counterparty will be purchased and/or held by the Equity Swap Counterparty at the relevant time as principal on its own account prior to delivery to the Company, whereupon they will be promptly cancelled by the Company. The Swap Gain or Swap Loss was part of the original terms of the Equity Swap. No matter whether the additional Share Delivery Option is entered into between the Company and Equity Swap Counterparty or not, the resultant accounting gain or loss upon the settlement of the Equity Swap is the same (assuming the Final Price is equal to the

market price per Share at the time of physical settlement) and will have the same impact on the Company's profit and loss account. For details, please refer to the paragraph headed "Rationale for the Share Delivery Option pursuant to the Amended and Restated Equity Swap" below.

As the Share Delivery Option is an option only exercisable by the Company (subject to the terms of the Equity Swap), there may or may not be any share repurchases at all, depending on whether the Board, subject to its fiduciary duty to all Shareholders, considers it to be in the interest of the Company and the shareholders as a whole to do so. Any such repurchase by the Company under the Share Delivery Option would in effect be made at a price equivalent to the Initial Price of HK\$13.6783 per Share (excluding Costs), in any amounts up to the maximum number of Shares available for termination under the Equity Swap at such time, which at the scheduled termination would be (if no further termination occurs) 12,612,707 Shares.

The table below illustrates how cash settlement would work on a per share basis under various Final Price scenarios and on the assumption that the cash received under the cash settlement would be used by the Company to effect an on market share repurchase:

CASH SETTLEMENT

Final Price	Equity Swap Cash Settlement Amount		On-market repurchase		
	Initial Exchange Amount (outflow) (a)	Payable by the Equity Swap Counterparty to the Company (b)	Net cash inflow / (outflow) (c) = (a) + (b)	Market Price ^(notes) (outflow) (d)	Combined Cashflow (c) + (d)
9	(13.6783)	9	(4.6783)	(9)	(13.6783)
17.78	(13.6783)	17.78	4.1017	(17.78)	(13.6783)
13.6783	(13.6783)	13.6783	0	(13.6783)	(13.6783)

Notes:

The computation assumes that the market price is the same as the Final Price. However, as the Final Price will be determined by reference to the average of the volume weighted average price on each Averaging Date in the relevant Averaging Period, it is unlikely that the price paid for an on-market repurchase made following the cash settlement of the Equity Swap would be equal to the Final Price. In addition, transaction costs including the stamp duty (which may be levied by reference to the market price for the transfer of the relevant Shares), exchange levy, brokerage fees and any similar costs and fees which may be incurred for the purposes of the cash settlement and subsequent on-market Share repurchases (if any) are not taken into account.

The table below illustrates how physical settlement would work on a per share basis under various market price scenarios:

PHYSICAL SETTLEMENT

<i>Market Price</i>	Initial Exchange Amount (outflow) (a)	Equity Swap Cash Settlement Amount		Net cash inflow / (outflow) (c) = (a) + (b)	On market repurchase	Total cost of off-market share repurchase (notes) (c) + (d)
		Payable by the Equity Swap Counterparty to the Company (b)	Market Price ^(notes) (outflow) (d)			
9	(13.6783)	0	(13.6783)	N/A	(13.6783)	
17.78	(13.6783)	0	(13.6783)	N/A	(13.6783)	
13.6783	(13.6783)	0	(13.6783)	N/A	(13.6783)	

Notes:

Physical settlement would enable the repurchase of shares to be carried out at a fixed price (i.e. the Initial Price of HK\$13.6783) and avoid uncertainty that would otherwise arise under a market repurchase. In addition, transaction costs including the stamp duty (which may be levied by reference to the higher of the market price or the fixed repurchase price of HK\$13.6783), exchange levy, and any similar costs and fees which may be incurred for the purposes of the physical settlement are not taken into account.

Potential Off-Market Repurchase of Shares

Exercising the Share Delivery Option, on one or more occasions, will constitute an off-market repurchase of up to a total of 12,612,707 Shares under the Repurchase Code. In accordance with Rule 2 of the Repurchase Code, the share repurchase contemplated by the Share Delivery Option in the amended and restated Equity Swap shall be subject to, *inter alia*, the approval of the Executive and such approval will be conditional upon, *inter alia*, the approval of disinterested shareholders by at least three-fourths of the votes cast on a poll at a general meeting of shareholders duly convened whereby the notice of meeting convening such general meeting has been accompanied by a circular containing certain information as set out in Rule 2 of the Repurchase Code.

An application has been made to the Executive for approval of the transaction contemplated under the amended and restated Equity Swap.

Rationale for the Share Delivery Option pursuant to the Amended and Restated Equity Swap

The Share Delivery Option provides the Company with an alternative to cash settlement when conditions make it attractive. There is no determination of when, or if, this option may be exercised. Under the terms of cash settlement, once the relevant conditions have been met, an Optional Early Termination may be exercised by the Company at any time prior to the scheduled termination of the Equity Swap when the Company wishes to utilise the proceeds from cash settlement for general corporate purposes, including for use in an on-market share repurchase if it considers that the Share price may be attractive. Under the Share Delivery Option, once the relevant conditions have been met, an Optional Early Termination may be exercised by the Company if the Share price is very volatile.

As stated in the announcement made by the Company on 24 April 2008, the Directors consider that one of the reasons for, and benefits of, the Equity Swap is to allow the Company to hedge against Share price increases if the Company repurchases Shares on-market in the future. The closing price for the Share as at 6 November 2009 was HK\$16.32. Such repurchases may be desirable to the Company in the event that the Share price reaches or rises above the Conversion Price and the Company becomes obligated to issue Shares to converting Bondholders. The Company has repurchased in total a face amount of RMB848.20 million of Bonds in a series of transactions during the period from 24 October 2008 to 4 December 2008. On 6 August 2009, Bonds in the aggregate principal amount of RMB1 million have been converted into 64,497 Shares. There are still outstanding Bonds with a face amount of RMB1,147.10 million as at 6 November 2009, convertible into 73,985,370 Shares at the adjusted conversion price of HK\$17.2886 (based on the fixed exchange rate of HK\$1: RMB0.8968).

Even if the Share price is below the Conversion Price of the Bonds upon termination of some or all of the Equity Swap, the Company may wish to repurchase its own Shares depending on the then prevailing capital structure and financial position of the Group. Following the cash settlement of the Equity Swap, the Company may opt to use such proceeds to repurchase Shares on the market subject to market conditions, the availability of its share repurchase mandate from shareholders and compliance with the Listing Rules and relevant law. However, if the Share price fluctuates significantly between the date of the termination of the Equity Swap and the determination of the Final Price, the Company may or may not be able to effect the on-market repurchase of its Shares at an average price equivalent to the Final Price and the Company may need to pay additional brokerage costs. The Share Delivery Option, however, allows the Company to undertake a Share repurchase free from any market uncertainties and at the same time without affecting the accounting gain or loss being materialized upon settlement of the Equity Swap.

The Swap Gain or Swap Loss was part of the original terms of the Equity Swap. No matter whether the additional Share Delivery Option is entered into between the Company and Equity Swap Counterparty or not, the resultant accounting gain or loss upon the settlement of the Equity Swap is the same (assuming the Final Price is equal to the market price per Share at the time of physical settlement) and will have the same impact on the Company's profit and loss account. The tables below demonstrate the accounting entries for the remaining Equity Swap assuming various final prices per share under the accounting standards and rules currently applicable to the Company:

Cash settlement

Final Price per share	HK\$16.32 being the closing price as at 6 November			
	2009	HK\$9	HK\$17.78	HK\$13.6783
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Dr. Loss on the Equity Swap	—	59	—	—
Dr. Cash	206	114	224	173
Cr. Gain on the Equity Swap	33	—	51	—
Cr. Restricted Cash	173	173	173	173

Physical settlement

Market Price per share	HK\$16.32 being the closing price as at 6 November			
	2009	HK\$9	HK\$17.78	HK\$13.6783
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Dr. Loss on the Equity Swap	—	59	—	—
Dr. Share capital and share premium	206	114	224	173
Cr. Gain on the Equity Swap	33	—	51	—
Cr. Restricted Cash	173	173	173	173

Notes:

The computation assumes that the market price is the same as the Final Price. However, in the event of the physical settlement, there will be no calculation of the Final Price.

As demonstrated in the above table, in the event of the physical settlement, (i) the price paid for the share repurchase will be recognized as a release (credit) of the restricted cash of HK\$13.6783 (the Initial Price); (ii) the share capital and share premium will be reduced by HK\$9 (market price) for recognizing the fair value (which will be determined by the market price of the Share at the time of the repurchase) of the share repurchased and cancelled; and (iii) as there is a difference in the price paid for the Share repurchase and the fair value of the Share repurchase, a loss of HK\$4.6783 is recognized. There will be no calculation of Final Price. The market price will have an impact on the amount of gain or loss on the Equity Swap and the fair value of the share repurchased but not the actual price of the Share repurchase, which is always equal to the restricted cash released as a result of settlement via the Share Delivery Option, i.e. the Initial Price of HK\$13.6783 per Share. As demonstrated in the above tables, the accounting gain/ loss upon the settlement of the Equity Swap for cash and physical settlement remains the same (assuming the Final Price is equal to the market price per Shares at the time of physical settlement).

In addition, as the Final Price will be determined by reference to the average of the volume weighted average price on each Averaging Date in the relevant Averaging Period, it is unlikely that the price paid for an on-market repurchase made following the cash settlement of the Equity Swap would be equal to the Final Price. This is because the Company would not have received the cash settlement amount payable by the Equity Swap Counterparty before determination of the Final Price, which is calculated by reference to the average of the volume weighted average price on each Averaging Date in the relevant Averaging Period (being the period starting from the date of the scheduled termination or any optional early termination of the Equity Swap and, depending on the circumstances, ending after a period of up to 30 consecutive Scheduled Trading Days). Consequently, prior to the Company receiving the proceeds from the cash settlement of the Equity Swap, it will need to use its internal resources and/or borrow money to settle the on-market share repurchase on each Averaging Date and thus an on-market repurchase on such basis may impact the cash flow of the Company and/or incur interest expenses.

In the circumstances, the Company believes that the amendment and restatement of the Equity Swap is fair and reasonable and in the interests of the shareholders of the Company and the Company as a whole particularly because (i) with the additional Share Delivery Option, the Company will be able to repurchase the Shares free from any market uncertainty and (ii) the Company will generally be able to determine, at its option, when the optimal time for termination in part or in whole of the Equity Swap will occur, and whether at such time it is more beneficial to adopt cash settlement or physical settlement.

Implications under the Takeovers Code

Any off-market share repurchase and subsequent cancellation of Shares (pursuant to the amended and restated Equity Swap) may increase the percentage shareholding of the existing shareholder(s) of the Company such that a shareholder may become obliged to make an unconditional mandatory general offer in accordance with Rule 26 of the Takeovers Code, unless a whitewash waiver is obtained.

The maximum number of Shares which may fall to be delivered physically by the Equity Swap Counterparty to the Company on physical settlement pursuant to the Share Delivery Option is 12,612,707 Shares, representing approximately 1.01% of the existing issued share capital of the Company. Such Shares delivered to the Company will be cancelled and, assuming there is no offsetting increase in the number of issued Shares after conversion of the Bonds, the interest of the shareholders of the Company in the issued share capital of the Company will be increased proportionately.

Following cancellation of such Shares, the number of Shares in issue will be reduced from 1,245,064,497 Shares to 1,232,451,790 Shares, without taking into account changes in the share capital of the Company arising from conversion of the Bonds into the Shares, and assuming no other changes in the issued Share capital of the Company.

Fortune Apex Limited, being the single largest corporate shareholder (all of the shares of which are owned by the executive directors of the Company and certain other senior management members), has been ruled to be acting, in concert with Wiaearn Holdings Limited and Luckever Holdings Limited and their respective shareholders. However, Fortune Apex Limited and persons acting in concert with it will not be obligated to make an unconditional mandatory general offer under the Takeovers Code after the potential off-market share repurchase because (i) their aggregate shareholdings will not increase by more than 2% or (ii) their individual shareholding will not increase to 30% or more (assuming no further changes in the share capital since the date of this announcement). If there is any future change to the shareholding structure such that the general offer obligation on the part of Fortune Apex Limited and persons acting in concert with it will be triggered by the exercise of the Share Delivery Options, such concert group will be obligated to make a general offer in accordance with the Takeovers Code and accordingly, Fortune Apex Limited has confirmed to the Company that it will comply with the Takeovers Code in such event.

The following table summarises the shareholding structures of the Company (i) as at the date of this announcement, and (ii) immediately after full exercise of the Share Delivery Option and cancellation of the Shares. Issuance of Shares to converting Bondholders, with or without exercise of the Share Delivery Option, will only serve to dilute the holdings of Fortune Apex Limited below the levels on the right hand column of the table below.

Name of Shareholder	As at the date of this announcement		Assuming none of the Bonds are converted into Shares and upon full exercise of the Share Delivery Option ^(Note 1)	
	No. of Shares	Approximate % of issued share capital of the Company	No. of Shares	Approximate % of issued share capital of the Company
Fortune Apex Limited ^(Note 2)	268,474,024	21.56%	268,474,024	21.78%
Luckever Holdings Limited ^(Note 3)	60,338,151	4.85%	60,338,151	4.90%
Wiaearn Holdings Limited ^(Note 4)	60,284,023	4.84%	60,284,023	4.89%
Other Existing Shareholders	855,968,299	68.75%	843,355,592	68.43%
Total:	1,245,064,497	100%	1,232,451,790	100%

Notes :

1. The above shareholding structures are based on the assumption that there has been and will be no change in the issued share capital of the Company and shareholding structures of the Company from the date of this announcement to the date of the Share Delivery Option (save the exercise of the Share Delivery Option).
2. The shareholders of Fortune Apex are Messrs. Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang (passed away on 10 August 2007), Li Shengqiang, Liao Enrong, Jin Maoji, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguu. Neither Fortune Apex Limited nor any of its shareholders hold any Bonds nor any other securities of the Company, nor any options, derivatives or other arrangements to purchase or sell securities of the Company.
3. The shareholdings of Luckever Holdings Limited are based on its disclosure of interests form filed with the Company on 6 November 2008 pursuant to Part XV of the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong). It is possible that its current shareholdings have changed since the relevant filing date. To the best knowledge and information of the Directors, Luckever Holdings Limited is wholly owned by Mr. Liu Xuezhong and his wife Li Yuelan. No filing of disclosure of interests form has been made by it since 6 November 2008.
4. The shareholdings of Wiaearn Holdings Limited are based on its disclosure of interests form filed with the Company on 10 July 2007 pursuant to Part XV of the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong). It is possible that its current shareholdings have changed since the relevant filing date. To the best knowledge and information of the Directors, the sole shareholder of Wiaearn Holdings Limited is Mr. Pan Jinhong. No filing of disclosure of interests form has been made by it since 10 July 2007.

Disclosure of interest in the Company's Shares

In each case where the Company has elected for the Share Delivery Option, the Shares to be delivered by the Equity Swap Counterparty will be such shares purchased and/or held by the Equity Swap Counterparty at the relevant time as principal on its own account. Save for the Bonds and the Equity Swap and the options granted under the employees' share option scheme adopted by the Company on 8 June 2007, the Company does not hold any other outstanding options, derivatives or other arrangements to deal in securities of the Company.

As at the date of this announcement, pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, the Company has been informed that Morgan Stanley is deemed to be directly or indirectly interested in the Shares of the Company, comprising of a long position of approximately 1.395% and a short position of approximately 1.142%.

Public Float Requirement

It is currently envisaged by the Company that the settlement under the Share Delivery Option would not result in failure to meet the public float requirement set out under Rule 8.08 of the Listing Rules.

GENERAL

The Group is one of the leading mechanical transmission equipment manufacturers in the PRC, with substantially all of its assets and operations based in the PRC.

Morgan Stanley & Co. International plc is a public limited company incorporated in England and Wales. Its ultimate parent undertaking is Morgan Stanley, a US Federal Reserve approved "federal bank holding company", incorporated under the laws of the State of Delaware in the United States of America. Morgan Stanley, through its subsidiaries and affiliates, provides its products and services to a large and diversified group of clients and customers, including corporations, governments, financial institutions and individuals.

To the best knowledge of the Directors, no shareholder other than the Equity Swap Counterparty is required to abstain from voting in the EGM in relation to approval of the Share Delivery Option.

The independent board committee, comprising Mr. Zhu Junsheng, Mr. Jiang Xihe and Mr. Chen Shimin (all being independent non-executive Directors) and Mr. Zhang Wei (being a non-executive Director), has been formed to advise the independent shareholders in respect of the transactions contemplated under the amended and restated Equity Swap and other related matters.

Somerley Limited (“**Somerley**”) has been appointed as the independent financial adviser of the Company to advise the independent board committee in relation to the transaction contemplated under the amended and restated Equity Swap and other related matters. Its appointment has been approved by the independent board committee.

A circular containing, among other things, further details of the amended and restated Equity Swap, the advice of the independent financial adviser to the independent board committee, and a notice convening the EGM to be held to approve the amended and restated Equity Swap and other related matters, will be despatched to the shareholders in due course.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms will have the following meaning:

acting in concert:	has the meaning ascribed thereto under the Takeovers Code
Averaging Date:	<p>in respect of scheduled termination or Optional Early Termination of the entire outstanding notional amount of the Equity Swap transaction, 30 consecutive Scheduled Trading Days, starting on and including the Scheduled Termination Date or the relevant Optional Early Termination Date, subject to the averaging date disruption as referred to in the Equity Swap</p> <p>in respect of an Optional Early Termination of less than the entire outstanding notional amount of the Equity Swap transaction, a number of Scheduled Trading Days equal to the relevant Number of Averaging Dates, starting on and including the relevant Optional Early Termination Date, as selected by the Calculation Agent in its reasonable discretion</p>
Averaging Period:	the period commencing on the relevant First Averaging Date and ending on the relevant Valuation Date (inclusive)
Board:	board of directors of the Company
Bond Conditions:	the terms and conditions of the Bonds
Bondholder(s):	holder(s) of the Bonds from time to time

Bonds:	the RMB denominated USD Settled Zero Coupon Convertible Bonds due 2011 in an aggregate principal amount of RMB1,996.3 million (equivalent to approximately US\$286 million)
Bonds Subscription Agreement:	the subscription agreement between the Company and the Lead Manager dated 22 April 2008 in respect of the subscription of the Bonds
Calculation Agent:	Morgan Stanley & Co. International plc
Company:	China High Speed Transmission Equipment Group Co., Ltd., an exempted company incorporated in the Cayman Islands with limited liabilities whose shares are listed on the Hong Kong Stock Exchange
Conversion Price:	the price at which Shares will be issued upon conversion which currently is at HK\$17.2886 per Share with a fixed exchange rate of HK\$1.00 to RMB0.8968 and will be subject to adjustment in the manner provided in the terms and conditions of the Bonds
Costs:	for purposes of cash settlement and the calculation of Final Price, any stamp duty, exchange levy, any costs, brokerage or other fees, taxes, duties or charges, as applicable, incurred or charged by the Equity Swap Counterparty in effecting the settlement of transactions contemplated by the Equity Swap, and for purposes of physical settlement, any stamp duty, exchange levy and any similar costs, fees, taxes, duties or charges, as applicable, incurred by the Equity Swap Counterparty in effecting the settlement of transactions contemplated by the Equity Swap. For the avoidance of doubt, no brokerage fees will be paid by the Company to the Equity Swap Counterparty in respect of physical settlement.
Directors:	directors of the Company
EGM:	an extraordinary general meeting of shareholders

Equity Swap: a confirmation between the Company and the Equity Swap Counterparty dated 22 April 2008 and an ISDA master agreement (multicurrency cross-border) signed between the Company and the Equity Swap Counterparty in connection with the cash-settled equity swap transaction, the particulars of which are set out in the paragraph headed “Equity Swap” in this announcement

Equity Swap Counterparty: Morgan Stanley & Co. International plc

Executive: executive director of the Corporate Finance Division of the Securities and Futures Commission or any of his delegates

Final Price: the arithmetic average of the Relevant Prices on each Averaging Date in the relevant Averaging Period, subject to the averaging date disruption as referred to in the Equity Swap, as adjusted by the Calculation Agent in a commercially reasonable matter manner to account for any costs, fees, taxes, duties or similar charges as applicable, pursuant to the terms of the Equity Swap

First Averaging Date : the Scheduled Termination Date, or in respect of any Optional Early Termination, the relevant Optional Early Termination Date

Group: the Company and its subsidiaries

Hong Kong: the Hong Kong Special Administrative Region of the PRC

HK\$: Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region

Hong Kong Stock Exchange: The Stock Exchange of Hong Kong Limited

Initial Price: HK\$13.6783

Issuer: the Company

Lead Manager: Morgan Stanley & Co. International plc

Listing Rules: the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited

Maturity Date:	14 May 2011
Number of Averaging Dates:	a number of days, not exceeding 30 (and which for the avoidance of doubt, shall be consecutive) determined by the Calculation Agent in its reasonable discretion, with such determination based on, among other factors, the number of Shares to be valued in respect of the relevant Optional Early Termination Date, and the volume, historical trading patterns and price of the Shares
Optional Early Termination:	early termination in whole or in part of the transaction contemplated under the Equity Swap pursuant to the terms thereof
Optional Early Termination Date:	the date on which any Optional Early Termination is to be effected, subject to the terms of the Equity Swap
PRC:	the Peoples Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
Relevant Price:	for any Averaging Date, (i) the volume weighted average price per Share for the regular trading session (including any extensions thereof) of the Hong Kong Stock Exchange on such Averaging Date, as published by Bloomberg on Bloomberg page “VAP” (or any successor thereto), or (ii) if such price is not so reported on such Averaging Date for any reason, as reasonably determined by the Calculation Agent
Repurchase Code:	the Hong Kong Code on Share Repurchases
RMB:	Renminbi, the lawful currency of PRC
Scheduled Termination Date:	14 May 2011
Scheduled Trading Day:	any day in which (i) the Hong Kong Stock Exchange and (ii) each exchange or quotation system where trading has a material effect (as determined by the Calculation Agent) on the overall market for futures or option contracts relating to the Shares, are scheduled to be open for trading for their respective regular trading sessions.

Share Delivery Option:	an option to elect for physical delivery of Shares pursuant to the terms of the amended and restated Equity Swap
Shares:	ordinary shares of US\$0.01 each in the issued share capital of the Company
Takeovers Code:	the Hong Kong Code on Takeovers and Mergers
United States:	the United States of America
US\$ or USD or US Dollar:	United States dollars, the lawful currency of the United States
Valuation Date:	the final Averaging Date of the relevant Averaging Period
%:	per cent.

In this announcement, unless stated otherwise, amounts denominated in RMB have been converted into HK\$ at the rate of RMB1.00 = HK\$1.1151; and amounts denominated in US\$ have been converted into HK\$ at the rate of US\$1.00 = HK\$7.7957.

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

Hong Kong, 6 November 2009

As at the date of this announcement, the executive directors of the Company 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. Zhu Junsheng, Mr. Jiang Xihe and Mr. Chen Shimin.

The Directors jointly and severally accept full responsibility for the accuracy of information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.

** For identification purposes only*