THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in China High Speed Transmission Equipment Group Co., Ltd., you should at once hand this circular, together with the accompanying form of proxy, to the purchaser or transferee, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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 Advisor to the Independent Board Committee

SOMERLEY LIMITED

A letter from the Independent Board Committee containing its recommendation on the Share Repurchase is set out on pages 22 and 23 of this circular. A letter from Somerley Limited, the Independent Financial Adviser to the Independent Board Committee in respect of the Share Repurchase, is set out on pages 24 to 30 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Level 3, the Function Room, JW Marriott Hotel, 88 Queensway, Hong Kong at 9:30 a.m. on 15 January 2010 is set out on pages 128 and 129 of this circular. Whether or not you intend or are able to attend the meeting, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the extraordinary general meeting or any adjourned meeting thereto. The completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjourned meeting thereof should you so wish.

* *For identification purpose only*

24 December 2009

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

"acting in concert"	has the meaning ascribed thereto under the Takeovers Code
"Amended and Restated Equity Swap"	the amended and restated Equity Swap entered into between the Company and Equity Swap Counterparty on or about 6 November 2009
"Announcement"	the announcement dated 6 November 2009 made by the Company in relation to, *inter alia,* the Amended and Restated Equity Swap
"Averaging Date"	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 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
"Averaging Period"	the period commencing on the relevant First Averaging Date and ending on the relevant Valuation Date (inclusive)
"associates"	has the meaning ascribed thereto under the Listing Rules
"Board"	the 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"	the 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 "Original Terms of the Equity Swap" in this circular.
"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 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
"Hong Kong Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Independent Board Committee"	the independent board committee of the Board comprising the non-executive Director Mr. Zhang Wei and three independent non-executive Directors, namely Mr. Zhu Junsheng, Mr. Jiang Xihe and Mr. Chen Shimin, which is established for the purpose of advising the Independent Shareholders in respect of the transactions contemplated under the Amended and Restated Equity Swap and other related matters
"Independent Financial Adviser"	Somerley Limited (a licensed corporation to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) under SFO), the independent financial adviser appointed to advise the Independent Board Committee in relation to the transaction contemplated under the Amended and Restated Equity Swap and other related matters
"Independent Shareholders"	Shareholders, who are not involved in or interested, directly or indirectly, in the potential Share Repurchase and Equity Swap
"Initial Price"	HK$13.6783
"Issuer"	the Company
"Latest Practicable Date"	21 December 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
"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 People's Republic of China (for the purpose of this circular, 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
"SFO"	the Securities and Futures Ordinance (Cap.571 of the laws of Hong Kong)
"Share Delivery Option"	an option to elect for physical delivery of Shares pursuant to the terms of the Amended and Restated Equity Swap
"Shareholders"	shareholder(s) of the Company

"Shares"	ordinary shares of US$0.01 each in the issued share capital of the Company
"Share Repurchase"	the proposed purchase of Shares by the Company pursuant to terms of the Amended and Restated Equity Swap
"subsidiaries"	has the meaning ascribed thereto under the Companies Ordinance
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers
"United States"	the United States of America
"US$ 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 circular, 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

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)

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

Non-executive Director:
Mr. Zhang Wei

Independent Non-Executive Directors:
Mr. Zhu Junsheng
Mr. Jiang Xihe
Mr. Chen Shimin

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

Head office and principal place of business in Hong Kong:
Room 1302
13th Floor
Top Glory Tower
No.262 Gloucester Road
Causeway Bay
Hong Kong

24 December 2009

To the Shareholders

Dear Sir/Madam,

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

INTRODUCTION

On 6 November 2009, the Board announced that the Company has entered into the Amended and Restated Equity Swap with the Equity Swap Counterparty. Under the Amended and Restated Equity Swap, the Company shall be granted a Share Delivery Option as an alternative to cash settlement.

Such physical settlement constitutes an off-market repurchase of Shares and will be subject to (i) grant of an approval by the Executive and (ii) approval of disinterested Shareholders by at least three-fourths of the votes cast on a poll at the EGM. An application has been made to the Executive for its approval to the Share Repurchase.

The purpose of this circular is, among other things, (i) to provide you with further information in relation to the Amended and Restated Equity Swap and the Share Repurchase contemplated therein; (ii) to set out the advice from the Independent Financial Adviser to the Independent Board Committee and the recommendation of the Independent Board Committee in respect of the Amended and Restated Equity Swap and the Share Repurchase; and (iii) to give you notice of the EGM at which the necessary resolutions will be proposed to seek your approval of the Amended and Restated Equity Swap and the Share Repurchase.

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 the 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 or 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 RMB214,574,000, 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 and all 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	**Initial Exchange Amount (outflow) (a)**	**Equity Swap Cash Settlement Amount Payable by the Equity Swap Counterparty to the Company (b)**	**Net cash inflow/ (outflow) (c) = (a) + (b)**	**On-market repurchase 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

Market Price	Initial Exchange Amount (outflow) (a)	Equity Swap Cash Settlement Amount Payable by the Equity Swap Counterparty to the Company (b)	Net cash inflow/ (outflow) (c) = (a) + (b)	On market repurchase Market Price *(notes)* (outflow) (d)	Total cost of off-market share repurchase(notes) (c) + (d)
9	(13.6783)	0	(13.6783)	NA	(13.6783)
17.78	(13.6783)	0	(13.6783)	NA	(13.6783)
13.6783	(13.6783)	0	(13.6783)	NA	(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 the Latest Practicable Date was HK$18.50. 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 the Latest Practicable Date, 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$18.50 being the closing price as at the Latest Practicable Date**	**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	234	114	224	173
Cr. Gain on the Equity Swap	61	—	51	—
Cr. Restricted Cash	173	173	173	173

Physical settlement

Market Price per share	**HK$18.50 being the closing price as at the Latest Practicable Date**	**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	234	114	224	173
Cr. Gain on the Equity Swap	61	—	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 from1,245,064,497 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 Latest Practicable Date).

The following table summarises the shareholding structures of the Company (i) as at the Latest Practicable Date, 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.

	As at the Latest Practicable Date		**Assuming none of the Bonds are converted into Shares and upon full exercise of the Share Delivery Option** *(Note 1)*	
Name of Shareholder	**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%
Sub-total	389,096,198	31.25%	389,096,198	31.57%
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 Latest Practicable Date 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 Liguo. 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 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 purchase or sell securities of the Company.

As at the Latest Practicable Date, pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, the Company has been informed that the Equity Swap Counterparty is deemed to be directly or indirectly interested in the Shares of the Company, comprising of a long position of approximately 1.4655% and a short position of approximately 1.2229%.

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.

INFORMATION OF THE GROUP

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.

Further financial information of the Group is set out in Appendix 1 to this circular, including audited financial information on the Group for the past three financial years and the authorised and issued Share capital of the Company before and after the Share Repurchase.

Business of the Group

The Group principally manufactures and sells mechanical transmission equipment, commonly known as gearboxes. Mechanical transmission equipment consists of a system of gears and/or the hydraulic system that transmits power from a prime mover, such as an engine or electric motor, to some form of useful output device, normally rotary in form. The Group's mechanical transmission equipment is applied in a wide range of industries including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining.

The Group's products can be categorised in the following seven main product categories:

Wind generation gear transmission equipment ("Wind Generation Gear Transmission Equipment")

Wind Generation Gear Transmission Equipment is mainly used for traditional double-fed wind turbine generators. The Group currently produces gearboxes for wind turbines from 750 KW to 2 MW as well as pitch and yaw drivers. Gearboxes for wind turbines of 2.5 MW and over are currently under development and the Company intends eventually to supply gearboxes for wind turbines up to 5 MW.

Marine gear transmission equipment ("Marine Gear Transmission Equipment")

Marine Gear Transmission Equipment is mainly used for propeller transmission in a variety of marine vessels, including yachts, work boats, fishing boats and other marine applications. The Group produces large size marine gearboxes, including gearboxes for hydraulic controllable pitch propellers.

High speed gear transmission equipment ("High Speed Gear Transmission Equipment")

High Speed Gear Transmission Equipment comprises special purpose gearboxes mainly used in the power generation, metallurgy, petrochemical, aerospace and scientific research and development industries. The Group produces the "HS" series high speed gearbox, "MHS" series medium and high speed gearbox and new generation "NGGS" series high speed gearbox.

Gear transmission equipment for construction material ("Construction Gear Transmission Equipment")

Construction Gear Transmission Equipment is mainly used in crushing machinery for cement production and crushing machinery for the coal industry. The Group construction products include vertical mill gearboxes, central driving mill reducers, side driving mill reducers, planetary reducers for roller presses, mixers and powder concentrators and gear reducers.

General purpose gear transmission equipment ("General Purpose Gear Transmission Equipment"

General Purpose Gear Transmission Equipment is mainly used in the metallurgy, mining, petrochemical, power generation and textile industries. General purpose gearboxes are also used for conveyor belts and lifting devices. The Group's general purpose products include hard flank gear reducers, hard flank gearboxes, point line meshing gearboxes and planetary gear reducers.

Gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills ("Rolling Gear Transmission Equipment")

Rolling Gear Transmission Equipment is mainly used in plate-rolling mills, bar-rolling mills and high-speed fine wire-rolling mills. The Group's products include plate rolling mill main gearboxes, bar rolling mill main gearboxes, flying shears and high speed wire rolling mill gearboxes.

Others

Other products include mechanical transmission equipment for rubber production, mixers, coupling machines, customised mechanical transmission equipment and related spare parts, engineering gears and locomotive gears.

INFORMATION ABOUT MORGAN STANLEY & CO. INTERNATIONAL PLC

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.

RELATIONSHIP BETWEEN THE COMPANY AND MORGAN STANLEY & CO. INTERNATIONAL PLC

Morgan Stanley & Co International plc ("MSIP") and its subsidiaries and affiliates are independent of and are not acting in concert with the Company or its directors. MSIP and its subsidiaries and affiliates have performed certain investment banking and advisory services for the Company and/or its subsidiaries and affiliates from time to time for which they would have received customary fees and expenses. In addition to the transactions noted above, MSIP and its subsidiaries and affiliates may, from time to time, engage in other transactions with and perform services for the Company and/or its subsidiaries and affiliates in the ordinary course of their business.

FINANCIAL EFFECTS OF PROPOSED SHARE REPURCHASE ON THE GROUP

The remaining notional number of Shares under the Equity Swap was only 12,612,707, representing around 1.0% of the total issued share capital of the Company and the remaining balance of the Initial Exchange Amount was HK$172,520,390.16 as at the Latest Practicable Date.

If the Company elects to exercise the Share Delivery Option, no cash will be received by the Company and the Company believes that it will not have any adverse impact on the financial position of the Company.

The Directors consider that if the Share Delivery Option is to be exercised in full, it is not expected to have a material adverse impact on the earnings per share, net assets per share, liabilities and working capital of the Company.

EGM

Set out in pages 128 and 129 of this circular is a notice convening the EGM to be held at Level 3, the Function Room, JW Marriott Hotel, 88 Queensway, Hong Kong at 9:30 a.m. on 15 January 2010 for Shareholders to consider and if thought fit, to pass (i) the ordinary resolution to approve the Amended and Restated Equity Swap; and (ii) the special resolution to approve the potential Share Repurchase contemplated in the Amended and Restated Equity Swap (which must be approved by at least three-fourths of the votes cast on a poll by Independent Shareholders at the EGM). Only Independent Shareholders will be entitled to vote on the resolution at the EGM.

The form of proxy for use at the EGM is enclosed with this document. Whether or not you intend or are able to attend the meeting, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon and return it to branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM or any adjourned meeting thereto. The completion and return of the form of proxy will not preclude you from attending and voting in person at the extraordinary general meeting or any adjourned meeting thereof should you so wish.

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.

RECOMMENDATION

The Board, including members of the Independent Board Committee (as stated in the letter to the Independent Shareholders), consider that the terms of the Amended and Restated Equity Swap and the Share Repurchase are (i) fair and reasonable so far as the Independent Shareholders are concerned; and (ii) in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the resolution to be proposed at the EGM to approve the Amended and Restated Equity Swap and the Share Repurchase.

FURTHER INFORMATION

A form of the Amended and Restated Equity Swap will be available for inspection at the offices of Charltons at 10th Floor, Hutchison House, 10 Harcourt Road, Hong Kong during normal business hours from the date of this circular up to and including the date of the EGM.

Independent Shareholders are advised to read carefully the letter from the Independent Board Committee on pages 22 and 23 of this circular setting out its recommendation on the Amended and Restated Equity Swap and the Share Repurchase and the letter from the Independent Financial Adviser on pages 24 to 30 of this circular setting out its advice to the Independent Board Committee as to the fairness and reasonableness of the Share Repurchase.

Your attention is also drawn to other information contained in this letter and the information contained in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
Hu Yueming
Chairman

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)

24 December 2009

To the Independent Shareholders

Dear Sir or Madam,

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

We have been appointed as the Independent Board Committee to advise you as to whether the Amended and Restated Equity Swap and the potential off-market share repurchase as contemplated by an Amended and Restated Equity Swap (the "**Share Repurchase**") are fair and reasonable in so far as the Independent Shareholders are concerned and as to whether the Independent Shareholders should approve or disapprove the resolutions on the Amended and Restated Equity Swap and the Share Repurchase to be proposed at the EGM.

Details of the Amended and Restated Equity Swap and the Share Repurchase are set out in the letter from the Board contained in the circular to Shareholders dated 24 December 2009 (the "**Circular**"), of which this letter forms part. Terms defined in the Circular has the same meanings when used herein unless the context otherwise requires.

Somerley Limited has been appointed as the Independent Financial Adviser to the Independent Board Committee in relation to the Amended and Restated Equity Swap and the Share Repurchase.

Having considered the terms of the Amended and Restated Equity Swap (in particular, the provisions relevant to the potential Share Repurchase), and the advice of the Independent Financial Adviser in relation thereto as set out on pages 24 to 30 of the Circular, we have come to the view as follows:

(i) that the terms of the Amended and Restated Equity Swap (in particular, the provisions relevant to the potential Share Repurchase) are fair and reasonable in so far as the Independent Shareholders are concerned; and

(ii) the terms of the Amended and Restated Equity Swap and the potential Share Repurchase are in the interests of the Company and its Shareholders.

Accordingly, we recommend the Independent Shareholders to vote in favour of (i) the ordinary resolution regarding the approval of the Amended and Restated Equity Swap; and (ii) the special resolution regarding the approval of the potential Share Repurchase under the Amended and Restated Equity Swap as set out in the notice of the EGM contained in the Circular.

Yours faithfully,
For and on behalf of the
Independent Board Committee of
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
Jiang Xihe
Independent Non-Executive Director

The following is the letter of advice from Somerley Limited to the Independent Board Committee, which has been prepared for the purpose of inclusion in this circular.

SOMERLEY LIMITED
10th Floor
The Hong Kong Club Building
3A Chater Road
Central
Hong Kong

24 December 2009

To: the Independent Board Committee of
China High Speed Transmission Equipment Group Co., Ltd.

Dear Sirs,

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

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee in relation to the terms of the proposed amendment and restatement of the terms of the Equity Swap pursuant to which the Company shall have an option to require the Equity Swap Counterparty to settle a scheduled termination or Optional Early Termination of the Equity Swap, in whole or in part, by way of Share Delivery Option as an alternative to cash settlement (the "**Proposed Amendment**"). Details of the Proposed Amendment are set out in the letter from the Board contained in the circular (the "**Circular**") of the Company to the Shareholders dated 24 December 2009, of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise required.

Exercising the Share Delivery Option, on one or more occasions, will constitute an off-market repurchase 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 the EGM.

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 established to make a recommendation to the Independent Shareholders in respect of the transactions contemplated under the Amended and Restated Equity Swap and other related matters. We, Somerley Limited, have been appointed to advise the Independent Board Committee in the same regard, such appointment has been approved by the Independent Board Committee.

Somerley Limited is not associated with the Company, or its substantial Shareholders, or any party acting, or presumed to be acting, in concert with it and, accordingly, is considered eligible to give independent advice on the terms of the Proposed Amendment. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, or its substantial Shareholders or any party acting in concert, or presumed to be acting in concert, with it.

In formulating our opinion, we have reviewed, among other things, (i) the Equity Swap; (ii) the amendment confirmation between the Company and the Equity Swap Counterparty dated 24 October 2008 in connection with the Additional Optional Early Termination Right granted to the Company; (iii) the Amended and Restated Equity Swap in connection with the Share Delivery Option; and (iv) the Bonds Subscription Agreement. We have discussed with the Company regarding the rationale of entering into of the Amended and Restated Equity Swap with the Equity Swap Counterparty.

We have also relied on the information and facts supplied, and the opinions expressed, by the Company and have assumed that the information and facts provided and opinions expressed to us are true, accurate and complete in all material aspects at the time they were made and up to the date of the EGM. We have also sought and received confirmation from the Company that no material facts have been omitted from the information supplied and opinions expressed to us. We have relied on such information and consider that the information we have received is sufficient for us to reach an informed view and have no reason to believe that any material information has been withheld, nor doubt the truth or accuracy of the information provided. We have not, however, conducted any independent investigation into the business and affairs of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion and recommendation with regard to the terms of the Proposed Amendment, we have taken into account the following principal factors and reasons:

1. Background of the Bonds issue and the Equity Swap

Bonds issue in April 2008

On 22 April 2008, the Company entered into the Bonds Subscription Agreement with Morgan Stanley & Co., International plc pursuant to which an aggregate principal amount of RMB1,996.3 million (equivalent to approximately HK$2,226 million) was issued by the Company. The Bonds carry no coupon and have an initial conversion price of HK$17.78 (subject to customary adjustments as detailed in the announcement of the Company dated 24 April 2008 (the "**Bonds Issue Announcement**")). The initial conversion price of the Bonds of HK$17.78 has been adjusted to HK$17.2886 on 18 June 2009 as a result of the distribution of dividends by the Company.

Because of the significant drop in the Share price during the last quarter of 2008, the Bond price has also been dropped correspondingly. The Company has therefore repurchased a number of outstanding Bonds at a discount to their face value during the last quarter of 2008. After a series of repurchase by the Company and conversion by the holders, the face value of the outstanding Bonds reduced to approximately RMB1,147.1 million as at Latest Practicable Date. These outstanding Bonds are convertible into 73,985,370 Shares at the adjusted conversion price of HK$17.2886. Further details of the Bonds issue were set out in the Bonds Issue Announcement.

Equity Swap

Concurrently with the Bonds issue in April 2008, the Company entered into the Equity Swap with the Equity Swap Counterparty for Shares up to a value of HK$1,113 million (representing underlying notional Shares of 81,370,707 Shares, Initial Price for each notional Share is HK$13.6783), being approximately 50% of the gross proceeds from the Bonds issue. An Initial Exchange Amount, being HK$1,113 million, was deposited with the Equity Swap Counterparty on the effective date of the Equity Swap. The Equity Swap Counterparty will return the Initial Exchange Amount (to the extent relating to the notional Shares terminated under the Equity Swap) plus/minus difference between the Final Price and the Initial Price, multiplied by the number of notional Shares terminated under the Equity Swap (the "**Final Exchange Amount**").

For example, if the Final Price is HK$15.6783, for the termination of one notional Share under the Equity Swap, the Equity Swap Counterparty shall return to the Company HK$15.6783, being the Initial Exchange Amount attributable to one notional Share of HK$13.6783 plus HK$2 (being HK$15.6783 minus HK$13.6783 and multiplied by 1 Share) upon termination of the Equity Swap attributable to one notional Share. If the Final Price is HK$11.6783, for the termination of one notional Share under the Equity Swap, the Equity Swap Counterparty shall return to the Company HK$11.6783, being the Initial Exchange Amount attributable to one notional Share of HK$13.6783 minus HK$2 (being HK$13.6783 minus HK$11.6783 and multiplied by 1 Share) upon termination of the Equity Swap attributable to one notional Share. The Final Price is based on the arithmetic average of the Relevant Prices on each Averaging Date in the relevant Averaging Period, being 30 consecutive Scheduled Trading Days (details of the Final Price is set out the letter from the Board).

Early termination and settlement of the Equity Swap

Unless previously terminated, settlement of the Equity Swap shall only happen on the Scheduled Termination Date, which is 14 May 2011. As stated in the Bonds Issue Announcement, the Scheduled Termination Date is the same as the Maturity Date of the Bonds as the Company's purpose in entering into of the Equity Swap is to provide the Company with a hedge against an increase in its Share price above the Initial Price.

Under the Equity Swap, 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**"):

(i) any holder of the Bonds validly exercises all or part of its conversion rights;

(ii) the Issuer validly exercises its option to mandatorily convert all or some only of the Bonds under the Bond Conditions; or

(iii) 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.

Under the original terms of the Equity Swap, any termination and settlement of the Equity Swap must be in cash only.

Because of the change in market conditions and the recent repurchases of the Bonds by the Company, the Company and the Equity Swap Counterparty entered into the amendment confirmations dated 24 October 2008 and 4 May 2009 pursuant to which the Company was granted additional optional early termination rights, which is not subject to the occurrence of any of the Optional Early Termination Events in respect of 68,758,000 Shares under the Equity Swap (the "**Additional Optional Early Termination Right**"). Pursuant to the Additional Optional Early Termination Right, the Company and the Equity Swap Counterparty had undertaken the partial termination in respect of 68,758,000 Shares. As a result of the exercise of this Additional Optional Early Termination Right, the remaining notional number of Shares under the Equity Swap is reduced to 12,612,707 and the remaining balance of the Initial Exchange Amount was HK$172,520,390.16 as at the Latest Practicable Date. The Company no longer have any Additional Optional Early Termination Right following the aforesaid partial early termination.

Share Delivery Option

Under the Amended and Restated Equity Swap, the Company may elect to exercise the Share Delivery Option as an alternative to cash settlement, without additional cost. If the Share Delivery Option is exercised, the Company will repurchase the underlying Shares under the Equity Swap at the Initial Price and the Equity Swap Counterparty will deliver to the Company the corresponding underlying Shares. The Equity Swap Counterparty's obligation to return the Final Exchange Amount to the Company shall be extinguished. In each case where the Company has elected for physical settlement, the Shares to be delivered by the Equity Swap Counterparty will be purchased and/or held by the Equity Swap Counterparty on its own account prior to delivery to the Company, whereupon they will be promptly cancelled. Transaction costs including the stamp duty, exchange levy, and any similar costs and fees which may be incurred for the purposes of the physical settlement will be borne by the Company.

No matter whether this additional Share Delivery Option is entered into between the Company and the Equity Swap Counterparty or not, the resultant 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 illustrate 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:

a. *Cash settlement:*

Final Price per share	**HK$18.50 being the closing price as at the Latest Practicable Date**	**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	234	114	224	173
Cr. Gain on the Equity Swap	61	—	51	—
Cr. Restricted Cash	173	173	173	173

b. *Physical settlement:*

Market Price per share	**HK$18.50 being the closing price as at the Latest Practicable Date**	**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	234	114	224	173
Cr. Gain on the Equity Swap	61	—	51	—
Cr. Restricted Cash	173	173	173	173

Note: The above computation assumes that the market price is the same as the Final Price. In the event of the physical settlement i.e. election of Share Delivery Option by the Company, there will be no calculation of the Final Price.

2. **Financial impact of share repurchase contemplated by the Share Delivery Option**

The remaining notional number of Shares under the Equity Swap was only 12,612,707, representing around 1.0% of the total issued share capital of the Company and the remaining balance of the Initial Exchange Amount was HK$172,520,390.16 as at the Latest Practicable Date.

If the Company elects to exercise the Share Delivery Option, no cash will be received by the Company and the Company believes, and we concur, that it will not have any adverse impact on the financial position of the Company.

The Directors consider, and we concur, that if the Share Delivery Option is to be exercised in full, it is not expected to have a material adverse impact on the earnings per share, net assets per share, liabilities and working capital of the Company.

3. **Reasons to support the additional Share Delivery Option**

No cost

The Share Delivery Option is granted to the Company at no cost (other than the incidental costs in relation to the Proposed Amendment, such as professional fees) and is only exercisable at the Company's discretion when market conditions and/or the underlying financial position of the Company make it attractive.

Share repurchase may be beneficial to the Company in certain circumstances

Depending on the underlying financial position of the Company, exercising of the Share Delivery Option may be beneficial to the Shareholders in certain circumstances. For example, earnings per Share would be accretive as long as the Company is making a profit (taking into account the resultant swap gain or loss as a result of the termination of the Equity Swap). On the other hand, net asset value per Share would be accretive if the market price of the Shares (when the Equity Swap is terminated) is lower than the net asset value per Share (taking into account the resultant swap gain or loss as a result of the termination of the Equity Swap). The Company would take into account the then prevailing cash flow or liquidity position of the Company before the exercising of the Share Delivery Option as the right to receive the Final Exchange Amount would be extinguished if the Share Delivery Option is opted. In any event, exercising of the Share Delivery Option is entirely at the Company's discretion and is not an obligation.

Share repurchase price is certain

The maximum underlying Shares subject to the remaining notional number of Shares under the Equity Swap of 12,612,707 represents around 1.0% of the total issued share capital of the Company, it may be argued that repurchases of the Shares could be effected by utilizing (i) the cash proceeds from the return of the Final Exchange Amount under the original terms of the Equity Swap; and (ii) the Company's right to effect on-market repurchase under the 10% mandate authorised by its Shareholders. However, the Final Price under the original terms of the Equity Swap is not certain when the Equity Swap is terminated as it 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 optional early termination of the Equity Swap and, depending on the circumstances, ending after a period of up to 30 consecutive Scheduled Trading Days). Conversely, the Share Delivery Option allows the Company to effect share repurchases at the Initial Price (the corresponding gain or loss of the Equity Swap will be reference to the market price of the Share on the date of the termination of the Equity Swap).

Based on the above reasons, we concur with the Directors' view that the Proposed Amendment is in the interests of the Company and the Shareholders as a whole.

OPINION AND RECOMMENDATION

On the basis that (i) the Share Delivery Option is granted to the Company at no cost (other than the incidental costs in relation to the Proposed Amendment, such as professional fees) and is only exercisable at the Company's discretion; (ii) exercising of the Share Delivery Option may be beneficial to the Shareholders in certain circumstances and the Company confirmed that it will only exercise the Share Delivery Option in circumstances it considers beneficial to Shareholders; and (iii) the Share Delivery Option allows the Company to have the option to effect share repurchases at the Initial Price with certainty, we consider the terms of the Proposed Amendment is fair and reasonable as far as the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of (i) the ordinary resolution regarding the approval of the Amended and Restated Equity Swap; and (ii) the special resolution regarding the approval of the potential Share Repurchase under the Amended and Restated Equity Swap as set out in the notice of the EGM contained in the Circular.

Yours faithfully
For and on behalf of
SOMERLEY LIMITED
Kenneth Chow
Director — Corporate Finance

1. **Summary of Financial Information**

The following is a summary of the consolidated income statement of the Group for each of the three years ended 31 December 2006, 2007 and 2008 as extracted from the respective annual reports of the Company and have been audited by Deloitte Touche Tohmatsu. There were no qualification to the auditors' report and no extraordinary or exceptional items in respect of the Group's financial statements for the three years ended 31 December 2008.

Consolidated Income Statement

For the year ended 31 December 2008

	2008	**2007**	**2006**
	RMB'000	*RMB'000*	*RMB'000*
Revenue	3,439,220	1,904,816	1,184,307
Cost of sales	(2,447,060)	(1,351,751)	(843,544)
Gross profit	992,160	553,065	340,763
Other income	63,259	188,557	23,238
Other gains and loss	246,594	3,751	(20,048)
Distribution and selling costs	(106,939)	(79,320)	(55,690)
Administrative expenses	(284,340)	(227,914)	(137,489)
Research and development costs	(55,452)	(22,850)	(14,660)
Other expenses	(71,947)	(54,296)	—
Finance costs	(28,693)	(33,017)	(41,536)
Share of results of associates	(1,051)	(3,628)	(836)
Share of results of jointly controlled entities	10,892	—	—
Profit before tax	764,483	324,348	93,742
Income tax expense	(71,831)	(17,904)	(3,514)
Profit for the year	692,652	306,444	90,228
Attributable to:			
Equity holders of the Company	692,415	306,693	85,648
Minority interests	237	(249)	4,580
	692,652	306,444	90,228
Dividends	87,568	34,789	86,000

	2008	2007	2006
Earnings per share			
— Basic (RMB)	0.56 *(note 2)*	0.29	0.14
— Diluted (RMB)	0.13 *(notes 1 & 2)*	N/A	N/A

Notes:

(1) The fair value changes on convertible bonds of RMB522,897,000 is adjusted out of profit for the year ended 31 December 2008 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.

(2) For the purpose of assessing the performance of the Group for the year ended 31 December 2008, 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 equity holders of the Company". Based on this adjusted profit attributable to equity holders of the Company, the basic and diluted adjusted earnings per share are RMB0.45 and RMB0.42 respectively.

2. **Audited Financial Statements of the Group for the Year ended 31 December 2008**

Set out below are the audited consolidated income statement, consolidated balance sheet, consolidated statement of changes in equity and consolidated cash flow statement of the Group for the year ended 31 December 2008 together with the relevant notes as extracted from the annual report of the Company for the year ended 31 December 2008. There were no qualification to the auditors' report and no extraordinary items nor exceptional items in respect of the financial statements of the Group for the year ended 31 December 2008.

Consolidated Income Statement

For the year ended 31 December 2008

	NOTES	**2008** *RMB'000*	**2007** *RMB'000*
Revenue	7	3,439,220	1,904,816
Cost of sales		(2,447,060)	(1,351,751)
Gross profit		992,160	553,065
Other income	8	63,259	188,557
Other gains and loss	8	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	9	(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	10	(71,831)	(17,904)
Profit for the year	11	692,652	306,444
Attributable to:			
Equity holders of the Company		692,415	306,693
Minority interests		237	(249)
		692,652	306,444
Dividends	13	87,568	34,789
Earnings per share	14		

Consolidated Balance Sheet
As at 31 Decemer 2008

	NOTES	**2008**	**2007**
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment	15	2,361,940	1,405,364
Prepaid lease payments	16	242,256	49,893
Intangible assets	17	61,205	54,848
Interests in associates	18	18,485	7,536
Interests in jointly controlled entities	19	569,512	—
Available-for-sale investments	20	34,948	14,703
Prepayment for land lease	21	144,300	114,210
Prepayment for acquisition of property, plant and equipment	21	176,870	95,880
Deferred tax assets	30	7,184	8,283
		3,616,700	1,750,717
CURRENT ASSETS			
Inventories	22	1,335,674	646,107
Prepaid lease payments	16	5,125	1,226
Available-for-sale investments	20	20,500	43,000
Trade and other receivables	23	1,294,246	638,497
Amount due from an associate	24	24,026	10,906
Amount due from a jointly controlled entity	25	14,780	—
Amount due from a related party	26	900	1,716
Pledged bank deposits	37	502,696	177,265
Restricted cash	32	981,566	—
Bank balances and cash	27	681,643	1,516,146
		4,861,156	3,034,863
CURRENT LIABILITIES			
Trade and other payables	28	2,048,940	1,156,074
Tax liabilities		53,648	15,557
Borrowings - due within one year	29	1,292,166	420,818
		3,394,754	1,592,449

	NOTES	2008 RMB'000	2007 RMB'000
NET CURRENT ASSETS		1,466,402	1,442,414
TOTAL ASSETS LESS CURRENT LIABILITIES		5,083,102	3,193,131
NON-CURRENT LIABILITIES			
Borrowings — due after one year	29	68,346	73,040
Deferred tax liabilities	30	23,937	12,224
Financial liabilities designated as at fair value through profit or loss — convertible bonds	31	931,550	—
Derivative financial instrument	32	292,794	—
Deferred income	33	31,830	—
		1,348,457	85,264
		3,734,645	3,107,867
CAPITAL AND RESERVES			
Share capital	34	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

Consolidated Statement of Changes in Equity

For the year ended 31 Decemeber 2008

	Attributable to equity holders of the parent											
	Share capital	Share premium	Deemed capital contribution reserve	Capital reserve	Statutory surplus reserve	Other reserve	Investment revaluation reserve	Share option reserve	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(note a)	*(note b)*	*(note c)*	*(note d)*						
At 1 January 2007	12	173,722	77,651	154,091	49,923	52,335	—	—	19,265	526,999	4,229	531,228
Gain on fair value change of available-for-sale investments	—	—	—	—	—	—	13,353	—	—	13,353	—	13,353
Deferred tax liability arising on gain on fair value change of available-for-sale investments	—	—	—	—	—	—	(1,878)	—	—	(1,878)	—	(1,878)
Net income recognised directly in equity	—	—	—	—	—	—	11,475	—	—	11,475	—	11,475
Profit (loss) for the year	—	—	—	—	—	—	—	—	306,693	306,693	(249)	306,444
Total recognised income (expense) for the year	—	—	—	—	—	—	11,475	—	306,693	318,168	(249)	317,919
Issue of ordinary shares at a premium	—	64,311	—	—	—	—	—	—	—	64,311	—	64,311
Issue of shares at premium through initial public offer	26,222	2,353,848	—	—	—	—	—	—	—	2,380,070	—	2,380,070
Issue of shares by capitalisation of share premium account	68,395	(68,395)	—	—	—	—	—	—	—	—	—	—
Transaction costs attributable to issue of shares	—	(150,602)	—	—	—	—	—	—	—	(150,602)	—	(150,602)
Dividend recognised as distribution	—	—	—	—	—	—	—	—	(34,789)	(34,789)	—	(34,789)
Appropriation	—	—	—	—	32,307	—	—	—	(32,307)	—	—	—
Acquisition of additional equity interests in a subsidiary	—	—	—	388	—	—	—	—	—	388	(658)	(270)

	Attributable to equity holders of the parent											
	Share capital	Share premium	Deemed capital contribution reserve	Capital reserve	Statutory surplus reserve	Other reserve	Investment revaluation reserve	Share option reserve	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			(note a)	*(note b)*	*(note c)*	*(note d)*						
At 31 December 2007	94,629	2,372,884	77,651	154,479	82,230	52,335	11,475	—	258,862	3,104,545	3,322	3,107,867
Loss on fair value change of available-for-sale investments	—	—	—	—	—	—	(9,754)	—	—	(9,754)	—	(9,754)
Deferred tax liability reversal on loss on fair value change of available-for-sale investments	—	—	—	—	—	—	1,418	—	—	1,418	—	1,418
Net expense recognised directly in equity	—	—	—	—	—	—	(8,336)	—	—	(8,336)	—	(8,336)
Profit for the year	—	—	—	—	—	—	—	—	692,415	692,415	237	692,652
Total recognised income (expense) for the year	—	—	—	—	—	—	(8,336)	—	692,415	684,079	237	684,316
Dividend recognised as distribution	—	—	—	—	—	—	—	—	(87,568)	(87,568)	—	(87,568)
Appropriation	—	—	—	—	55,387	—	—	—	(55,387)	—	—	—
Release upon strike off of a subsidiary	—	—	—	(388)	—	—	—	—	388	—	—	—
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	30,030	—	30,030	—	30,030
At 31 December 2008	94,629	2,372,884	77,651	154,091	137,617	52,335	3,139	30,030	808,710	3,731,086	3,559	3,734,645

Note a: The deemed capital contribution reserve represents the fair value of a mandatory purchase right granted on 22 December 2006 from the original shareholders of the Company to convertible bond holders to request the original shareholders of the Company to purchase their converted shares. Such amount has been viewed as deemed capital contribution from shareholders and credited to the capital contribution reserve. The relevant convertible bonds were fully converted in 2006.

Note b: The capital reserve represents the difference between the total consideration and the net assets of certain subsidiaries acquired or disposed by the Group with a shareholder of Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("NGC").

Note c: Pursuant to relevant laws and regulations in the People's Republic of China ("PRC") and the Articles of Association of the PRC subsidiaries of the Company, the PRC subsidiaries are required to make appropriation from profit after taxation to the statutory surplus reserve at rate of 10%. The statutory surplus reserve may be used to make up losses incurred and, with the approval from relevant government authorities, to increase capital.

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

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008	2007
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Profit before tax	764,483	324,348
Adjustments for:		
Allowance for inventories	483	4,216
Amortisation of intangible assets	15,569	9,312
Bank interest income	(43,372)	(49,932)
Depreciation of property, plant and equipment	145,185	84,011
Finance costs	28,693	33,017
(Gain) loss on disposal of property, plant and equipment	(915)	4,753
Gain on fair value change on convertible bonds	(522,897)	—
Gain on repurchase of convertible bonds	(107,941)	—
Impairment loss on trade receivables	2,236	3,484
Interest income arising from subscription monies in relation to global offering of the Company's shares	—	(119,811)
Interest on available-for-sale investments	(382)	—
Loss on fair value change on derivative financial instrument	385,799	—
Loss on disposal of intangible assets	—	1,225
Release of prepaid lease payments	2,732	1,069
Share of results of associates	1,051	3,628
Share of results of jointly controlled entities	(10,892)	—
Share-based payment expenses	30,030	—
Transaction cost on convertible bonds	34,935	—
Operating cash flows before movements in working capital	724,797	299,320
Increase in inventories	(690,050)	(302,814)
Increase in trade and other receivables	(657,985)	(111,739)
Increase in amount due from an associate	(13,120)	(10,906)
Increase in amount due from a jointly controlled entity	(14,780)	—
Increase in trade and other payables	819,870	338,509
Cash generated from operations	168,732	212,370
Income tax paid	(19,510)	(4,788)
NET CASH FROM OPERATING ACTIVITIES	149,222	207,582

	2008	2007
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(943,906)	(588,654)
Increase in restricted cash	(981,566)	—
Investment in a jointly controlled entity	(548,620)	—
(Increase) decrease in pledged bank deposits	(325,431)	15,514
Prepayment for land lease	(144,300)	(92,150)
Prepayment for acquisition of property, plant and equipment	(176,870)	(95,880)
Prepaid lease payments paid	(84,784)	(31,592)
Purchase of available-for-sale investments	(50,500)	(43,000)
Expenditure on development projects	(21,926)	(35,508)
Investment in an associate	(12,000)	—
Proceeds on disposal of available-for-sale investments	43,000	—
Interest received	43,754	169,743
Government grants received	31,830	—
Proceeds on disposal of property, plant and equipment	1,937	16,021
Repayment from a related party	816	862
Acquisition of additional equity interests in subsidiaries	—	(270)
NET CASH USED IN INVESTING ACTIVITIES	(3,168,566)	(684,914)
FINANCING ACTIVITIES		
Issue of convertible bonds	1,996,300	—
New bank borrowings raised	1,360,512	820,024
Repurchase of convertible bonds	(526,917)	—
Repayment of bank borrowings	(493,858)	(1,223,367)
Dividend paid	(87,568)	(34,789)
Transaction cost on convertible bonds	(34,935)	—
Interest paid	(28,693)	(47,140)
Transaction cost attributable to issue of shares	—	(150,602)
Repayment to related parties	—	(11,127)
Proceeds from global offering of the Company's shares	—	2,380,070
Issue of ordinary shares	—	64,311
NET CASH FROM FINANCING ACTIVITIES	2,184,841	1,797,380
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(834,503)	1,320,048
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	1,516,146	196,098
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTING BANK BALANCES AND CASH	681,643	1,516,146

Notes to the Consolidated Financial Statements
For the year ended 31 December 2008

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 (the "Stock Exchange") with effect from 4 July 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the section Corporate Information in the annual report.

The Company acts as investment holding. Particulars of the principal activities of its subsidiaries, associates and jointly controlled entities are set out in notes 42, 18 and 19 respectively.

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

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

In the current year, the Group has applied 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 20081
IFRSs (Amendments)	Improvements to IFRSs April 20092
IAS 1 (Revised)	Presentation of Financial Statements3
IAS 23 (Revised)	Borrowing Costs3
IAS 27 (Revised)	Consolidated and Separate Financial Statements4
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation3

IAS 39 (Amendment)	Eligible hedged items4
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate3
IFRS 2 (Amendment)	Vesting Conditions and Cancellations3
IFRS 3 (Revised)	Business Combinations4
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments3
IFRS 8	Operating Segments3
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives5
IFRIC 13	Customer Loyalty Programmes6
IFRIC 15	Agreements for the Construction of Real Estate3
IFRIC 16	Hedges of a Net Investment in a Foreign Operation7
IFRIC 17	Distributions of Non-cash Assets to Owners4
IFRIC 18	Transfers of Assets from Customers8

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. SIGNIFICANT ACCOUNTING POLICIES

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

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

The principal accounting policies adopted are set out as follows:

Basis of consolidation

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

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

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

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

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

Acquisition of additional interests in subsidiaries

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

Investments in associates

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

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

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

Jointly controlled entities

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

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Prior to 1 January 2008, this was accounted for using proportionate consolidation. This change is made, in the opinion of the directors of the Company, with a view to give a fairer presentation of the Group's interest in its jointly controlled entities. No restatement has been made to the comparatives as the effect of the change is not material. From 1 January 2008, interests in jointly controlled entities are accounted for using the equity method. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity (which includes any long-term interests that, in substance, form part of the Group's net investment in the jointly controlled entity), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the jointly controlled entity recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

Revenue recognition

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

Revenue from sale of goods is recognised when the goods are delivered and title has passed.

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

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

Property, plant and equipment

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

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

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

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

Leasing

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

The Group as lessee

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

Prepaid lease payments

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

Foreign currencies

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

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

Borrowing costs

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

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

Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as deferred income and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as ‘other income’.

Retirement benefit costs

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, interests in associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

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

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

Intangible assets

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

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

Research and development expenditures

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

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

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria. Where no internally-generated intangible asset can be recognised, development expenditure is charged to profit or loss in the period in which it is incurred.

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

Inventories

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

Financial instruments

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

Financial assets

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

Effective interest method

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

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

Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets.

Loans and receivables

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

Available-for-sale financial assets

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

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

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

Impairment of financial assets

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

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

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

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

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

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

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

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

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. The Group's financial liabilities are generally classified into financial liabilities at FVTPL and other financial liabilities.

Effective interest method

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at FVTPL of the Group comprise financial liabilities designated at FVTPL on initial recognition.

A financial liability is designated as at FVTPL upon initial recognition if:

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

At each balance sheet date subsequent to initial recognition, financial liabilities at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any interest paid on the financial liabilities.

Other financial liabilities

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

Equity instruments

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

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

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

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

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

At the time when the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Impairment losses on tangible and intangible assets other than goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

Depreciation of property, plant and equipment

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

Impairment of property, plant and equipment

The impairment loss for property, plant and equipment is recognised for the amounts by which the carrying amounts exceed its recoverable amount, in accordance with the Group's accounting policy. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The Group has assessed and reviewed annually for impairment loss whenever events or change in circumstances indicate that the carrying amount may not recoverable. Such estimations were based on certain assumptions, which are subject to uncertainty and might materially differ from actual results. No impairment was provided during the year.

Allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of bad and doubtful debts requires the use of estimates. Where the expectation of future cash receipts is different from the original estimate, such difference will impact the carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2008, the carrying amount of trade receivables is RMB968,440,000 (net of allowance for bad and doubtful debts of RMB33,775,000).

Allowance for inventories

Management exercises their estimates in making allowance for inventories. Management reviews the inventory listing at each balance sheet date, and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in operation. As at 31 December 2008, the carrying amount of inventories is RMB1,335,674,000 (net of allowance for inventories of RMB19,757,000).

Fair value of convertible bonds and derivative financial instrument

Management uses their judgement in selecting an appropriate valuation technique to determine the fair values of convertible bonds and derivative financial instrument. Valuation techniques commonly used by market practitioners are applied. For convertible bonds and derivative financial instrument, assumptions are made based on quoted market rates adjusted for specific features of the instruments. Details of the assumptions used are disclosed in notes 31 and 32 respectively.

5. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 29 and convertible bonds disclosed in note 31 (net of cash and cash equivalents) and equity attributable to equity holders of the Company, comprising issued share capital, retained profits and other reserves.

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

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2008	2007
	RMB'000	*RMB'000*
Financial assets		
Loans and receivables (including cash and cash equivalents)	3,192,927	2,162,691
Available-for-sale investments	55,448	57,703
Financial liabilities		
Amortised cost	2,718,196	1,216,745
Derivative financial instrument	292,794	—
Financial liabilities designated as at FVTPL		
— convertible bonds (see below)	931,550	—
Financial liabilities designated as at FVTPL		
Difference between carrying amount and maturity amount		
— At fair value	931,550	—
— Amount payable at maturity	1,148,100	—
	216,550	—

6b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, trade and other payables, pledged bank deposits, restricted cash, bank balances and cash, borrowings, convertible bonds and derivative financial instrument. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

The Group mainly operates in the PRC with transactions substantially entered into in RMB, and the exposure to exchange rate risks mainly arises from the foreign currency sales and purchases and the bank balances and borrowings denominated in foreign currency. Approximately 22% of the Group's sales and 10% of the Group's purchase are denominated in currencies other than the functional currency of the respective group entities.

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

Assets

	2008	**2007**
	RMB'000	*RMB'000*
Hong Kong Dollars (HKD)	1,043,384	4,882
United States Dollars (USD)	351,373	45,297
Euro Dollars (EUR)	182,985	28,073
Swiss Francs (CHF)	11,551	—
Japanese Dollars (JPY)	6,247	—
Australian Dollars (AUD)	—	988,550

Liabilities

	2008	**2007**
	RMB'000	*RMB'000*
United States Dollars (USD)	999,896	494,283
Hong Kong Dollars (HKD)	292,794	—

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

Sensitivity analysis

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

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

	2008	**2007**
	RMB'000	*RMB'000*
HKD impact	(37,529)	—
USD impact	32,426	22,449
EUR impact	(9,149)	(1,342)
AUD impact	—	(49,448)

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and pledged bank deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings, bank balances carried at prevailing interest rate. The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider necessary action when significant interest rate exposure is anticipated.

Sensitivity analysis

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

The Group does not have significant concentration of interest rate risk. The Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference of anticipated changes in market interest rate.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by RMB1,278,000 (2007: decrease/increase by: RMB365,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings.

(iii) Other price risk

The Group is exposed to other price risk through its available-for-sale investments, convertible bonds and derivative financial liabilities. The management closely monitors the other price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks of the share price of listed equity securities, as well as the share price of the Company for convertible bonds and derivative financial instrument, assuming all other variables were held constant, at the reporting date. No sensitivity performed for available-for-sale debt investment as it will be matured on 4 January 2009 and the effect is insignificant.

If the prices of the respective equity instruments had been 5% (2007: 5%) higher/lower:

- investment valuation reserve would increase/decrease by RMB230,000 (2007: RMB718,000) for the Group as a result of the changes in fair value of investments in listed equity security.
- profit for the year ended 31 December 2008 would decrease/increase by RMB12,110,000 (2007: N/A) as a result of the changes in fair value of convertible bonds; and
- profit for the year ended 31 December 2008 would increase by RMB34,257,000 /decrease by RMB56,216,000 (2007: N/A) as a result of the changes in fair value of derivative financial instrument.

Credit risk

As at 31 December 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

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

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit rating, the Group also has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2008, five customers accounted for approximately 31.8% (2007: 43.8%) of the Group's trade receivables. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk.

Liquidity risk

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

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2008, the Group has available unutilised short-term bank loan facilities of approximately RMB1,548 million (2007: RMB1,317 million). Details of which are set out in note 29.

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

	Weighted average effective interest rate	0 - 30 days	31 - 90 days	90 - 365 days	1 - 5 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2008							
Non-derivative financial liabilities							
Trade and other payables	—	103,343	166,974	1,087,367	—	1,357,684	1,357,684
Borrowings	5.49	110,636	221,273	995,727	70,222	1,397,858	1,360,512
Convertible bonds	—	—	—	—	1,148,100	1,148,100	931,550
		213,979	388,247	2,083,094	1,218,322	3,903,642	3,649,746
Derivative-net settlement							
Equity Swap		—	—	—	296,672	296,672	292,794

	Weighted average effective interest rate	0 - 30 days	31 - 90 days	90 - 365 days	1 - 5 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2007							
Non-derivative financial liabilities							
Trade and other payables	—	49,475	102,326	571,086	—	722,887	722,887
Borrowings	6.43	36,196	72,392	325,763	77,738	512,089	493,858
		85,671	174,718	896,849	77,738	1,234,976	1,216,745

6c. **Fair value**

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

- the fair value of available-for-sale investments with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices;

- the fair value of financial assets and financial liabilities (excluding convertible bonds and derivative financial instrument) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input; and

- the fair value of convertible notes and derivative financial instrument are determined using option pricing model. Major inputs are disclosed in notes 31 and 32 respectively.

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

7. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the 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 overseas customers. 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	**2007**
	RMB'000	*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
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

	2008	2007
	RMB'000	*RMB'000*
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 for 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 (2007: RMB3,031,000, RMB1,000 and RMB452,000) were related to customers located in the PRC, Europe and Others respectively. Except for 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.

8. 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.

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

10. INCOME TAX EXPENSE

	2008	2007
	RMB'000	*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 (note 30)		
— 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. The approval was obtained before the year ended 31 December 2007 for Nanjing High Speed and 31 December 2008 for Nanjing Marine.

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).

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

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

	2008	**2007**
	RMB'000	*RMB'000*
Profit before tax	764,483	324,348
Tax at income tax rate of 25% (2007: 33%)	191,121	107,035
Income taxed at concessionary rate and tax exemption	(73,187)	(92,822)
Tax effect of share of results of associates and jointly controlled entities	(2,460)	—
Tax effect of expenses not deductible for tax purposes	123,472	49,566
Tax effect of income not taxable for tax purposes	(168,506)	(38,800)
Tax effect of tax losses not recognised	7,407	540
Utilisation of tax losses previously not recognised	(234)	—
Overprovision in respect of prior year	(799)	(783)
Other tax benefit (Note)	(17,841)	(6,239)
Increase (decrease) in opening net deferred tax liability resulting from a decrease in applicable tax rate	163	(593)
Tax effect on undistributed earnings of PRC's subsidiaries	12,695	—
Tax charge for the year	71,831	17,904

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

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

During the year, the total tax benefit approved by the tax authorities which the Group was entitled to was RMB15,026,000 (2007: RMB9,054,000), of which an amount of RMB17,841,000 (2007: RMB6,239,000) has been utilised to deduct the current year's income tax. No unused tax benefit carried forward at 31 December 2008.

11. 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 (note 12)	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	2,447,060	1,351,751
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 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	—

12. DIRECTORS' AND EMPLOYEES' EMPLOYEES' EMOLUMENTS

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

	2008	2007
	RMB'000	*RMB'000*
Directors		
— fee	—	—
— salaries and other allowances	10,242	6,826
— retirement benefit plan contributions	318	42
Total emoluments	10,560	6,868

	2008				2007			
	Fee	Salaries and allowances	Retirement benefits scheme contributions	Total	Fee	Salaries and allowances	Retirement benefits scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Hu Yueming	—	1,847	53	1,900	—	1,262	7	1,269
Chen Yongdao	—	1,637	53	1,690	—	1,090	7	1,097
Lu Xun	—	1,637	53	1,690	—	1,090	7	1,097
Li Shengqiang	—	1,637	53	1,690	—	1,090	7	1,097
Liu Jianguo	—	1,637	53	1,690	—	1,090	7	1,097
Liao Enrong	—	1,637	53	1,690	—	1,090	7	1,097
Chen Shimin	—	100	—	100	—	50	—	50
Zhu Jun Sheng	—	40	—	40	—	20	—	20
Jiang Xihe	—	40	—	40	—	20	—	20
Zhang Wei	—	12	—	12	—	6	—	6
Zhu Kenming (Resigned on 24 November 2008)	—	12	—	12	—	6	—	6
Wang Qi (Resigned on 21 May 2008)	—	6	—	6	—	6	—	6
Richard Andrew Cornish Piliero (Resigned on 9 October 2007)	—	—	—	—	—	6	—	6
	—	10,242	318	10,560	—	6,826	42	6,868

Employees

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

During the years ended 31 December 2007 and 2008, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

13. DIVIDENDS

	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.

14. 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:		
Gain on fair value change 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
	'000	*'000*
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 ordinary 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 equity holders of the Company". A reconciliation of adjusted profits is as follows:

	2008	**2007**
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company as shown in the consolidated income statement	692,415	306,393
Gain on fair value change on convertible bonds	(522,897)	—
Loss on fair change on derivative financial instrument	385,799	—
Adjusted profit attributable to equity holders of the Company for the purposes of basic and diluted adjusted earnings per share	555,317	306,393
Earnings per share based on the adjusted profit attributable to equity holders of the Company:		
— Basic (RMB)	0.45	0.29
— Diluted (RMB)	0.42	N/A

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Fixture and equipment	Transportation equipment	Construction in progress	Leasehold improvements	Software	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST								
At 1 January 2007	171,926	504,005	37,150	44,904	310,939	1,050	5,974	1,075,948
Additions	185	9,908	1,077	106	631,722	—	316	643,314
Transfer	117,025	298,712	27,165	29,743	(472,645)	—	—	—
Disposals	(5,052)	(18,648)	(7,823)	(255)	—	—	—	(31,778)
At 31 December 2007	284,084	793,977	57,569	74,498	470,016	1,050	6,290	1,687,484
Additions	13,201	3,247	4,110	3,826	1,078,329	—	70	1,102,783
Transfer	81,320	528,384	25,120	28,403	(663,227)	—	—	—
Disposals	—	(6,079)	(54)	(11,574)	—	—	—	(17,707)
At 31 December 2008	378,605	1,319,529	86,745	95,153	885,118	1,050	6,360	2,772,560
DEPRECIATION								
At 1 January 2007	18,962	143,252	19,509	22,932	—	611	3,847	209,113
Provided for the year	5,405	61,627	7,558	8,586	—	279	556	84,011
Eliminated on disposals	(732)	(2,981)	(7,075)	(216)	—	—	—	(11,004)
At 31 December 2007	23,635	201,898	19,992	31,302	—	890	4,403	282,120
Provided for the year	13,879	98,547	14,441	17,742	—	80	496	145,185
Eliminated on disposals	—	(5,123)	(46)	(11,516)	—	—	—	(16,685)
At 31 December 2008	37,514	295,322	34,387	37,528	—	970	4,899	410,620
CARRYING VALUES								
At 31 December 2008	341,091	1,024,207	52,358	57,625	885,118	80	1,461	2,361,940
At 31 December 2007	260,449	592,079	37,577	43,196	470,016	160	1,887	1,405,364

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

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

16. PREPAID LEASE PAYMENTS

	2008	**2007**
	RMB'000	*RMB'000*
Medium-term land use rights in the PRC	247,381	51,119
Analysed for reporting purpose as:		
Current assets	5,125	1,226
Non-current assets	242,256	49,893
	247,381	51,119

The amount represents the land use rights for leasehold interest in land is situated in the PRC with usage rights of 50 years.

17. INTANGIBLE ASSETS

	Development costs	Technical know-how	Total
	RMB'000	*RMB'000*	*RMB'000*
COST			
At 1 January 2007	33,214	1,500	34,714
Additions	35,508	—	35,508
Written off	—	(1,500)	(1,500)
At 31 December 2007	68,722	—	68,722
Additions	21,926	—	21,926
At 31 December 2008	90,648	—	90,648
AMORTISATION			
At 1 January 2007	4,562	275	4,837
Charge for the year	9,312	—	9,312
Eliminated on written off	—	(275)	(275)
At 31 December 2007	13,874	—	13,874
Charge for the year	15,569	—	15,569
At 31 December 2008	29,443	—	29,443
CARRYING VALUES			
At 31 December 2008	61,205	—	61,205
At 31 December 2007	54,848	—	54,848

The above intangible assets have finite useful lives, over which the assets are amortised. The amortisation period for development costs incurred on the Group's self-developed new products is 5 years. The carrying amount of technical know-how is amortised on a straight-line basis over a period of 10 years and was written off in prior year.

18. INTERESTS IN ASSOCIATES

	2008	2007
	RMB'000	*RMB'000*
Cost of unlisted investments in associates	24,000	12,000
Share of post-acquisition results	(5,515)	(4,464)
	18,485	7,536

As at 31 December 2008 and 2007, the Group had interests in the following associates:

Name of entity	Form of business structure	Place of establishment/ principal place of operation	Class of share held	Proportion of nominal value of registered capital held by the Group 2008	2007	Principal activity
南京采埃孚船用傳動系統有限公司 ZF Nanjing Marine Propulsion Co., Ltd. ("ZF Nanjing")	Sino-foreign equity joint	The PRC	Registered	40%	40%	Manufacture and sales of gear transmission equipment
南京朗勁風能設備製造有限公司 Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd. ("Nanjing Longwin")	PRC equity joint-venture	The PRC	Registered	40%	—	Manufacture and sales of wind power transmission equipment and its fitting

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

	2008	2007
	RMB'000	*RMB'000*
Total assets	124,250	48,520
Total liabilities	(78,037)	(29,680)
Net assets	46,213	18,840
Group's share of net assets of associates	18,485	7,536
Revenue	97,651	26,662
Loss for the year	(2,626)	(9,071)
Group's share of results of associates for the year	(1,051)	(3,628)

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2008	2007
	RMB'000	*RMB'000*
Cost of unlisted investments in jointly controlled entities	558,620	—
Share of post-acquisition results	10,892	—
	569,512	—

Included in the cost of investment in jointly controlled entities is goodwill of RMB17,920,000 (2007: nil) arising on acquisition of a jointly controlled entity during the year. The movement of goodwill is set out below.

	RMB'000
COST	
At 1 January 2007 and 2008	—
Arising on acquisition of a jointly controlled entity	17,920
At 31 December 2008	**17,920**

As at 31 December 2008 and 2007, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of establishment/ principal place of operation	Class of share held	Proportion of nominal value of registered capital held by the Group		Proportion of voting power held		Principal activity
				2008	2007	2008	2007	
南京高精工程設備有限公司 Nanjing High Accurate Construction Equipment Co., Ltd. ("Nanjing Construction")	Sino-foreign equity joint venture	The PRC	Registered	50%	50%	50%	50%	Engineering processing and manufacturing
江蘇省宏晟重工集團有限公司 Jiangsu Hongsheng Heavy Industries Group Co., Ltd. ("Jiangsu Hongsheng")	Sino-foreign equity joint venture	The PRC	Registered	50.01%	—	50.01% *(note)*	—	Manufacture and sales of forged steel and fittings

Note: The Group holds 50.01% of the registered capital of Jiangsu Hongsheng and controls 50.01% of the voting power in general meeting. However, under a joint venture agreement, Jiangsu Hongsheng is jointly controlled by the Group and the other party. Therefore, Jiangsu Hongsheng is classified as a jointly controlled entity of the Group

The summarised financial information in respect of the Group's interests in the jointly controlled entities attributable to the Group's interest therein which are accounted for using equity method is set out below:

	2008	2007
	RMB'000	*RMB'000*
Current assets	441,669	—
Non-current assets	367,361	—
Current liabilities	209,959	—
Non-current liabilities	48,134	—
Income	394,896	—
Expense	384,495	—

20. AVAILABLE-FOR-SALE INVESTMENTS

	2008	2007
	RMB'000	*RMB'000*
Equity securities listed in PRC	4,598	14,353
Unlisted debt securities	20,500	43,000
Unlisted equity securities	30,350	350
	55,448	57,703
Analysed for reporting purpose as:		
Current assets	20,500	43,000
Non-current assets	34,948	14,703
	55,448	57,703

The fair value of listed equity securities has been determined by reference to bid price quoted in the relevant stock exchange.

The unlisted debt securities carried interest which vary based on return on underlying government bonds and bills and discounted bank bills. The principal amounts are guaranteed and in some cases may be early redeemed by the Group at principal amount with interest. The maturity date is 4 January 2009. In the opinion of the directors, the fair values of the unlisted debt securities at the balance sheet date approximated the principal amounts.

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

In the current year, the Group disposed of unlisted debt securities with carrying amount of RMB43,000,000. An interest income of RMB382,000 has been recognised in profit or loss for the current year.

21. PREPAYMENT FOR LAND LEASE AND ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

Balances as at 31 December 2008 represented prepayment for land lease with consideration of approximately RMB144 million has been fully paid. For prepayment for acquisition of property, plant and equipment, capital commitment of the remaining payment was disclosed in note 36.

Balance as at 31 December 2007 represented prepayment for land lease with consideration of approximately RMB114 million has been fully paid. For prepayment of acquisition of property, plant and equipment, capital commitment of the remaining payment was disclosed in note 36.

22. INVENTORIES

	2008	**2007**
	RMB'000	*RMB'000*
Raw materials	299,280	93,236
Work in progress	879,740	455,981
Finished goods	156,654	96,890
	1,335,674	646,107

23. TRADE AND OTHER RECEIVABLES

	2008	2007
	RMB'000	*RMB'000*
Notes receivable	388,274	165,707
Accounts receivables	222,275	307,185
Bills receivable	391,666	—
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 and bills 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

The trade receivable balances of RMB914,168,000 (2007: RMB378,409,000) are neither past due nor impaired at the reporting date for which the Group has not provided for impairment loss since they are mainly the customers with good credit quality. No impairment loss was made on advance to suppliers since there are substantial purchases received from the suppliers subsequent to the year end.

It is the Group's policy to make provision against debts which are past due. However, included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB54,272,000 (2007: RMB62,944,000) which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable as there are continuing subsequent settlement. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

	2008	2007
	RMB'000	*RMB'000*
181 - 365 days	24,632	46,783
Over 365 days	29,640	16,161
Total	54,272	62,944

Movement in the allowance for doubtful debts

	2008	2007
	RMB'000	*RMB'000*
Balance at beginning of the year	31,539	28,055
Impairment losses recognised on receivables	2,236	3,484
Balance at end of the year	33,775	31,539

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB33,775,000 (2007: RMB31,539,000) which have either been placed under liquidation or in financial difficulties. The Group does not hold any collateral over these balances.

During the year, the Group discounted certain bills receivable to banks with recourse. The Group continues to recognise the full carrying amount of the receivables as the Group is still exposed to credit risk on these receivables. At 31 December 2008, the carrying amount of the bills discounted is RMB391,666,000 (2007: nil). The carrying amount of the associated liability which represented the cash received from discounted notes (see note 29) is RMB391,666,000 (2007: nil).

24. AMOUNT DUE FROM AN ASSOCIATE

This relates to trade balance with ZF Nanjing and aged within 120 days. The amount is unsecured, interest-free and within the credit period of 180 days.

25. AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

This relates to trade balance with Jiangsu Hongsheng and aged within 120 days. The amount is unsecured, interest-free and within the credit period of 180 days.

26. AMOUNT DUE FROM A RELATED PARTY

Name of related party	Relationship	2008	2007
		RMB'000	*RMB'000*
Nanjing Yuhuatai District Saihong Bridge Street Office ("Nanjing Yuhuatai")	Holding company of minority shareholder of NGC	900	1,716

The above balance is unsecured, non-interest bearing and repayable on demand.

27. BANK BALANCES AND CASH

Bank balances carry interest at prevailing market interest rates which range from 2.05% to 6.68% (2007: 2.5% to 6.83%) per annum.

28. 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 37.

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.

29. 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 equivalent to RMB68,346,000 (2007: USD67,609,000, which 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.

30. DEFERRED TAX

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

	Doubtful debts allowance	Inventories allowance	Capitalisation of research and development	Revaluation on investment	Withholding tax	Deferred income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007	(867)	(628)	2,159	—	—	—	664
Effect of change in tax rate	(3,391)	(419)	3,217	—	—	—	(593)
(Credit) charge to consolidated income statement	(588)	(2,390)	4,970	—	—	—	1,992
Charge to equity	—	—	—	1,878	—	—	1,878
At 31 December 2007	(4,846)	(3,437)	10,346	1,878	—	—	3,941
Effect of change in tax rate	662	254	(753)	—	—	—	163
Charge (credit) to consolidated income statement	660	803	1,189	—	12,695	(1,280)	14,067
Credit to equity	—	—	—	(1,418)	—	—	(1,418)
At 31 December 2008	(3,524)	(2,380)	10,782	460	12,695	(1,280)	16,753

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

The following is the analysis of the deferred tax balances for financial reporting presentation purposes:

	2008	**2007**
	RMB'000	*RMB'000*
Deferred tax assets	(7,184)	(8,283)
Deferred tax liabilities	23,937	12,224
	16,753	3,941

At 31 December 2008, the Group has unused tax losses of RMB32,392,000 (2007: RMB3,700,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of RMB29,394,000 (2007: RMB1,638,000) that can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits.

According to the New Law as mentioned in note 10, starting from 1 January 2008, 10% withholding income tax will be imposed on dividends relating to profits earned by the companies established in the PRC in the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary differences attributable to such profits. The Group has applied the preferential rate of 5% as all the Group's subsidiaries in the PRC are directly held by an investment holding company incorporated in Hong Kong.

31. CONVERTIBLE BONDS

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds, of aggregate principal amount of RMB1,996.3 million. The convertible bonds listed in singapore stock exchange and are convertible at the option of bond holders into fully paid shares with a par value of US$0.1 each of the Company at a conversion price of HK$17.78 per share, with a fixed exchange rate of HK$1.00 to RMB0.8968 for conversion, but will be subject to adjustment for, among other things, subdivision or consolidation of shares, bonus issues, rights issues, distribution and other dilutive events. If the bonds have not been converted, they will be redeemed on 14 May 2011 at an amount equal to the USD equivalent of its principal amount in RMB multiplied by 109.3443%. The Company, however, has the option to mandatorily convert all or some only of the convertible bonds provided that: (i) the closing price of the shares, for 20 out of 30 consecutive trading days, was at least 120% of the early redemption amount in effect on such trading days divided by the conversion ratio; or (ii) at least 90% of the convertible bonds have been redeemed, purchased, converted or cancelled. Due to the existence of a cash settlement option in the event of conversion, whereas the Company can settle in cash in lieu of delivery of the relevant shares pay to the bondholders, the convertible bonds are regarded as financial liabilities with embedded derivatives for the conversion and redemption options and the entire convertible bonds were designated as financial liabilities of fair value through profit or loss.

The movement of convertible bonds for the current year is set out below:

	RMB'000
Issue of convertible bonds on 14 May 2008	2,089,305
Consideration paid for repurchase of convertible bonds	(526,917)
Gain on repurchase of convertible bonds	(107,941)
Gain on fair value change on convertible bonds	(522,897)
As at 31 December 2008	931,550

During the year, the Group has repurchased convertible bonds with aggregated principal amount of RMB848.2 million, out of total principal amount RMB1,996.3 million, for a total consideration of RMB526.9 million.

The fair value of the entire convertible bond instrument containing the debt component and the embedded derivatives is measured using effective interest method and Binomial Option Pricing Model respectively. The valuation of the fair values were carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers.

The inputs into the Binomial Option Pricing Model at the respective valuation dates are as follows:

	14 May 2008	**31 December 2008**
Exercise price	HK$17.78	HK$17.78
Risk-free rate of interest	2.25%	0.66%
Dividend yield	0.56%	0.85%
Time to expiration	2.96 years	2.37 years
Volatility	53.30%	72.48%
Borrowing rate of issuer	9.55%	19.33%

32. DERIVATIVE FINANCIAL INSTRUMENT/RESTRICTED CASH

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds as disclosed in note 31, the Company entered into a cash settled equity swap transaction (the “Equity Swap”) with Morgan Stanley & Co. International plc (the “Equity Swap Counterparty”) for 81.4 million shares of the Company up to a value of HK$1,113 million (equivalent to approximately RMB982 million). The Company is required to deposit the corresponding initial exchange amount of RMB982 million (equivalent to HK$1,113 million) with the Equity Swap Counterparty as restricted cash for the Equity Swap, which carried no interest.

Upon the termination of the Equity Swap, the Company will receive a payment from the Equity Swap Counterparty if the final price of the Company’s share is higher than the initial price or will settle the payment to the Equity Swap Counterparty if the final price is lower than the initial price. The initial price is HK$13.6783 (equivalent to approximately RMB12.27) and the final price will be determined with reference to the volume weighted average price of the Company’s share on the date of settlement. Besides, the Equity Swap will be settled on termination date subject to early termination option of either parties under optional early termination events.

The fair value of the derivative financial instrument is measured using Binomial Option Pricing Model. The valuation of the fair value was carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers.

The inputs into the Binomial Option Pricing Model at the respective valuation dates are as follows:

	14 May 2008	31 December 2008
Exercise price	HK$13.68	HK$13.68
Risk-free rate of interest	2.25%	0.66%
Dividend yield	0.56%	0.85%
Time to expiration	3 years	2.41 years
Volatility	53.30%	72.48%

As the derivative financial instrument will be matured on 14 May 2011, it is classified as non-current liability.

33. DEFERRED INCOME

The amount represented the conditional grants received from PRC government for the Group's technology development and will be released to income over the useful lives of the product developed.

34. 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.*

35. SHARE-BASED PAYMENT TRANSACTIONS

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

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

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

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

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

— contribution to the development and performance of the Group;

— quality of work performed for the Group;

— initiative and commitment in performing his/her duties; and

— length of service or contribution to the Group.

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

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

The following table discloses movements of the Company's share options held by employees during the year:

Date of grant	**Exercise price HK$**	**Exercisable period**	**Outstanding at 1.1.2006 and 1.1.2007**	**Granted during the year**	**Outstanding at 31.12.2008**
6 November 2008	5.6	6.11.2008 to 5.11.2013	—	12,000,000	12,000,000
Exercisable at year end					12,000,000

The estimated fair value of the options on the date of grant is RMB30,030,000.

The fair value was calculated using the Binomial Option pricing model. The inputs into the model were as follows:

	6 November 2008
Closing share price at date of grant	HK$5.60
Exercise price	HK$5.60
Expected volatility	57.99%
Expected life	2 years
Risk-free rate	1.79%
Expected dividend yield	1.43%
Fair value per option	HK$2.5025

Expected volatility was determined by using the historical volatility of the Company's share price over the previous trading days which equivalent to the assumed life of the share option. The expected life used in the model has been adjusted, based on management's best estimate for the effects of non transferability, exercise restrictions and behavioural considerations.

The Binomial Option pricing model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

36. CAPITAL COMMITMENTS

	2008	**2007**
	RMB'000	*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

37. PLEDGED BANK DEPOSITS

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

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

The pledged deposits carry fixed interest rate of 3% (2007: 3%) per annum.

38. OPERATING LEASES

Minimum lease payments paid under operating lease during the year:

	2008	2007
	RMB'000	*RMB'000*
Premises	2,166	2,831

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

	2008	2007
	RMB'000	*RMB'000*
Within one year	2,166	2,123
In the second to fifth year inclusive	6,517	8,494
After five years	44,368	43,852
	53,051	54,469

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

39. RETIREMENT BENEFIT PLANS

The employees of the Group are members of a state-managed retirement pension scheme operated by the local government. The Group is required to contribute a specified percentage of their payroll costs to the retirement pension scheme to fund the benefits. The only obligation of the Group with respect to the retirement pension scheme is to make the specified contributions. The costs charged to consolidated income statements during the year were RMB32,941,000 (2007: RMB25,902,000). All the contributions had been paid over to the scheme as at the balance sheet date.

40. 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	2007
			RMB'000	*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 and in notes 24, 25 and 26.

(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 °ª½Ã©¾ (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 as set out in Note 12, the Group did not have any other significant compensation to key management personnel.

41. BALANCE SHEET OF THE COMPANY

	Note	2008	2007
		RMB'000	RMB'000
Total assets		4,201,890	3,072,666
Total liabilities		(1,364,911)	(423,885)
		2,836,979	2,648,781
Capital and reserves			
Share capital		94,629	94,629
Reserves	(i)	2,742,350	2,554,152
		2,836,979	2,648,781

Note:

(i) Reserves

	Share premium	Deemed capital distribution reserve	Accumulated profits (losses)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007	173,722	77,651	(32,690)	218,683
Profit for the year	—	—	171,096	171,096
Issued of ordinary shares	64,311	—	—	64,311
Issued of shares at premium through initial public offerings	2,353,848	—	—	2,353,848
Issue of shares by capitalisation of share premium account	(68,395)	—	—	(68,395)
Transaction costs attributable to issue of new shares	(150,602)	—	—	(150,602)
Dividend paid	—	—	(34,789)	(34,789)
At 31 December 2007	2,372,884	77,651	103,617	2,554,152
Profit for the year	—	—	275,766	275,766
Dividend paid	—	—	(87,568)	(87,568)
At 31 December 2008	2,372,884	77,651	291,815	2,742,350

42. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2008 and 2007 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment /operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
			%	%	
NGC(1) 南京高精齒輪集團有限公司	PRC 16 August 2001	RMB553,500,000	—	100	Manufacture and sales of gear, gear box and fittings
Nanjing High Speed(2) 南京高速齒輪製造有限公司	PRC 8 July 2003	RMB633,431,000	—	100	Manufacture and sales of gear, gear box and fittings
Nanjing Ningkai Mechanical Co., Ltd. ("Ningkai")(2) 南京寧凱機械有限公司	PRC 19 November 2002	RMB41,077,000	—	85.83	Engineering processing and manufacturing
Ningjiang(3) 南京高特齒輪箱製造有限公司	PRC 26 November 2003	US$25,593,264	—	100	Sales of gear, gear box and fitting
Nanjing Dongalloy(2) 南京寧嘉機電有限公司	PRC 26 September 1994	RMB5,317,125	—	100	Sales of gear and its fitting
Yongte(2) 南京永特齒輪箱製造有限公司	PRC 30 July 1990	RMB70,000,000	—	100	Manufacture of gear, gear box and its fitting
Nanjing Ningtai Property Management Co., Ltd.(2) 南京寧泰物業管理有限公司	PRC 25 August 2003	RMB300,000	—	85.03	Property management

Name of subsidiary	Place and date of incorporation/ establishment /operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activities
Nanjing High Speed & Accurate Gear (Shenyang) Sales Co., Ltd.(2)(5) 南京高精齒輪(瀋陽)有限公司	PRC 17 January 2004	RMB1,800,000	—	100	Sales of gear, gear box and its fitting
Nanjing Marine(2) 南京高精船用設備有限公司	PRC 2 February 2007	RMB96,000,000	—	100	Manufacture and sales of shipping of drive equipment
Nanjing Ninghongjian Mechanical Co., Ltd.(2) 南京寧宏建機械有限公司	PRC 15 March 2007	RMB20,000,000	—	100	Engineering processing and manufacturing
Nanjing High Associate Drive Equipment Manufacturing Co., Ltd.(1) 南京高精傳動設備製造有限公司	PRC 27 March 2007	USD207,500,000	—	100	Manufacture and sales of gear box and fittings
Nanjing Zhongchuan Shipping Drive Equipment Co., Ltd.(2) (4) 南京中傳船舶設備有限公司	PRC 10 June 2008	RMB33,300,000	—	100	Manufacture and sales of shipping drive equipment

Name of subsidiary	Place and date of incorporation/ establishment /operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activities
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.(2) (4) 北京中傳首高冶金成套設備有限公司	PRC 25 April 2008	RMB6,500,000	—	100	Metallurgical engineering and manufacturing
Nanjing Yongfa Shipping Drive Equipment Co. Ltd. (2) (4) 南京永發船舶設備有限公司	PRC 30 April 2008	RMB40,300,000	—	100	Manufacture and sales of shipping drive equipment
Goodgain Group Limited	British Virgin Islands ("BVI") 22 March 2005	USD1	100	—	Investment holding
Eagle Nice Holdings Limited	BVI 22 March 2005	USD1	100	—	Inactive
China Transmission Holdings Limited 中傳控股有限公司	Hong Kong 7 November 2007	HK$100	—	100	Investment holding
Century Well Holdings Limited(4) 英威集團有限公司	Hong Kong 9 January 2008	HK$100	—	100	Inactive
NGC Transmission Equipment (America) Inc.(4)	USA 7 August 2008	USD1,500,000	—	100	Sales of gear and its fitting

Notes:

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

(2) domestic enterprise established in the PRC

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

(4) these subsidiaries were established/incorporated during the year

(5) the subsidiary was deregistered on 31 December 2008

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

3. **Unaudited Consolidated Interim Financial Statements**

Set out below is the unaudited consolidated interim financial statements and notes thereon of the Group as extracted from the interim report of the Company for the six months ended 30 June 2009. There were no extraordinary or exceptional items during each of the six months ended 30 June 2008 and 2009.

Condensed Consolidated Statement of Comprehensive Income
For the six months ended 30 June 2009

		Six months ended 30 June	
	NOTES	**2009**	**2008**
		RMB'000	*RMB'000*
		(Unaudited)	*(Unaudited)*
Revenue	3	2,033,046	1,350,257
Cost of sales		(1,400,255)	(932,930)
Gross profit		632,791	417,327
Other income		34,435	47,463
Other gain and losses	4	(55,579)	75,529
Distribution and selling costs		(51,867)	(40,018)
Administrative expenses		(139,526)	(129,080)
Research and development costs		(21,626)	(10,359)
Other expenses		(31,083)	(64,697)
Finance costs		(57,715)	(8,625)
Share of results of associates		249	(912)
Share of results of jointly controlled entities		(4,425)	—
Profit before taxation		305,654	286,628
Taxation	5	(51,533)	(33,620)
Profit for the period	6	254,121	253,008
Other comprehensive income (expense)			
Gain (loss) on fair value change of available-for-sale investments		3,453	(7,267)
Deferred tax liabilities (arising) reversal on fair value change of available-for-sale investments		(316)	999
Other comprehensive income (expense) for the period		3,137	(6,268)
Total comprehensive income for the period		257,258	246,740

	NOTES	Six months ended 30 June 2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Profit for the period attributable to:			
Owners of the Company		254,410	252,767
Minority interests		(289)	241
		254,121	253,008
Total comprehensive income attributable to:			
Owners of the Company		257,547	246,499
Minority interests		(289)	241
		257,258	246,740
Basic and diluted earnings per share (RMB)	8	0.20	0.20

Condensed Consolidated Statement of Financial Position
At 30 June 2009

	NOTES	**30 June 2009** *RMB'000* *(Unaudited)*	**31 December 2008** *RMB'000* *(Audited)*
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,094,974	2,361,940
Prepaid lease payments		271,688	242,256
Intangible assets		65,546	61,205
Interests in associates		18,734	18,485
Interests in jointly controlled entities		565,087	569,512
Available-for-sale investments		47,282	34,948
Prepayment for land lease		118,300	144,300
Prepayment for acquisition of property, plant and equipment		90,277	176,870
Deferred tax assets		16,088	7,184
Derivative financial instrument	14	21,657	—
		4,309,633	3,616,700
CURRENT ASSETS			
Inventories		1,453,297	1,335,674
Prepaid lease payments		5,184	5,125
Available-for-sale investments		—	20,500
Trade and other receivables	10	1,367,650	1,294,246
Amounts due from associates		18,051	24,026
Amounts due from jointly controlled entities		3,155	14,780
Amount due from a related party		2,600	900
Pledged bank deposits	16	623,809	502,696
Restricted cash		152,077	981,566
Bank balances and cash		1,943,380	681,643
		5,569,203	4,861,156
CURRENT LIABILITIES			
Trade and other payables	11	1,838,638	2,048,940
Dividend payable		274,305	—
Tax liabilities		40,972	53,648
Borrowings - due within one year	12	2,443,000	1,292,166
		4,596,915	3,394,754
NET CURRENT ASSETS		972,288	1,466,402
TOTAL ASSETS LESS CURRENT LIABILITIES		5,281,921	5,083,102

	NOTES	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	241,041	68,346
Financial liabilities designated as at fair value through profit or loss - convertible bonds	13	1,251,399	931,550
Deferred tax liabilities		29,474	23,937
Derivative financial instrument	14	—	292,794
Deferred income		27,709	31,830
		1,549,623	1,348,457
		3,732,298	3,734,645
CAPITAL AND RESERVES			
Share capital		94,629	94,629
Reserves		3,619,699	3,636,457
Equity attributable to owners of the Company		3,714,328	3,731,086
Minority interests		17,970	3,559
		3,732,298	3,734,645

Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2009

	Attributable to owners of the Company											
	Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2008 (audited)	94,629	2,372,884	77,651	154,479	82,230	52,335	11,475	—	258,862	3,104,545	3,322	3,107,867
Profit for the period	—	—	—	—	—	—	—	—	252,767	252,767	241	253,008
Loss on fair value change of available-for-sale investments	—	—	—	—	—	—	(7,267)	—	—	(7,267)	—	(7,267)
Deferred tax liabilities reversal on loss on fair value change of available-for-sale investments	—	—	—	—	—	—	999	—	—	999	—	999
Total comprehensive income for the period	—	—	—	—	—	—	(6,268)	—	252,767	246,499	241	246,740
Dividend recognised as distribution	—	—	—	—	—	—	—	—	(87,568)	(87,568)	—	(87,568)
Capital contribution from a minority shareholder	—	—	—	—	—	—	—	—	—	—	516	516
At 30 June 2008 (unaudited)	94,629	2,372,884	77,651	154,479	82,230	52,335	5,207	—	424,061	3,263,476	4,079	3,267,555
Profit (loss) for the period	—	—	—	—	—	—	—	—	439,648	439,648	(520)	439,128
Loss on fair value change of available-for-sale investments	—	—	—	—	—	—	(2,487)	—	—	(2,487)	—	(2,487)
Deferred tax liabilities reversal on loss on fair value change of available-for-sale investments	—	—	—	—	—	—	419	—	—	419	—	419
Total comprehensive income for the period	—	—	—	—	—	—	(2,068)	—	439,648	437,580	(520)	437,060
Release upon strike off of a subsidiary	—	—	—	(388)	—	—	—	—	388	—	—	—
Recognition of equity-settled share-based payments	—	—	—	—	—	—	—	30,030	—	30,030	—	30,030
Appropriation	—	—	—	—	55,387	—	—	—	(55,387)	—	—	—

	Attributable to owners of the Company											
	Share capital	Share premium	Deemed capital contribution reserve	Capital reserve	Statutory surplus reserve	Other reserve	Investment revaluation reserve	Share option reserve	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2008 (audited)	94,629	2,372,884	77,651	154,091	137,617	52,335	3,139	30,030	808,710	3,731,086	3,559	3,734,645
Profit (loss) for the period	—	—	—	—	—	—	—	—	254,410	254,410	(289)	254,121
Gain on fair value change of available-for-sale investments	—	—	—	—	—	—	3,453	—	—	3,453	—	3,453
Deferred tax liabilities arising on gain on fair value change of available-for-sale investments	—	—	—	—	—	—	(316)	—	—	(316)	—	(316)
Total comprehensive income for the period	—	—	—	—	—	—	3,137	—	254,410	257,547	(289)	257,258
Dividend recognised as distribution	—	—	—	—	—	—	—	—	(274,305)	(274,305)	—	(274,305)
Capital contribution from a minority shareholder	—	—	—	—	—	—	—	—	—	—	14,700	14,700
Appropriation	—	—	—	—	6,877	—	—	—	(6,877)	—	—	—
At 30 June 2009 (unaudited)	94,629	2,372,884	77,651	154,091	144,494	52,335	6,276	30,030	781,938	3,714,328	17,970	3,732,298

Condensed Consolidated Statement of Cash Flows
For the six months ended 30 June 2009

	Six months ended 30 June 2009 RMB'000 (Unaudited)	Six months ended 30 June 2008 RMB'000 (Unaudited)
Net cash from operating activities	53,014	82,801
Net cash used in investing activities		
Increase in pledged bank deposits	(121,113)	(91,750)
Purchase of property, plant and equipment	(626,013)	(373,001)
Prepayment for acquisition of property, plant and equipment	(90,277)	(157,751)
Payment on partial termination of derivative financial instruments	(50,181)	—
Prepayment for acquisition of land lease	(18,208)	(53,590)
Expenditure on intangible assets	(6,643)	(19,528)
Decrease (increase) in restricted cash	829,489	(978,540)
Investment in associates	—	(23,017)
Other investing cash flows	18,355	(2,194)
	(64,591)	(1,699,371)
Net cash from financing activities		
New borrowings raised	2,033,050	10,000
Repayment of borrowings	(709,521)	(423,932)
Issue of convertible bonds	—	1,996,300
Other financing cash flows	(50,215)	(43,560)
	1,273,314	1,538,808
Net increase (decrease) in cash and cash equivalents	1,261,737	(77,762)
Cash and cash equivalents at 1 January	681,643	1,516,146
Cash and cash equivalents at 30 June, represented by bank balances and cash	1,943,380	1,438,384

Notes to the Condensed Consolidated Financial Statements
For the six months ended 30 June 2009

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board, which are effective for the Group's annual financial year beginning on 1 January 2009.

IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning on or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

IAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. IFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, IAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14 (see note 3). The adoption of the new and revised IFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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)	Amendment to IFRS 5 as part of Improvements to IFRSs issued in 2008[1]
IFRSs (Amendments)	Improvements to IFRSs issued in 2009[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 18	Transfers of Assets from Customers[4]

1 Effective for annual periods beginning on or after 1 July 2009

2 Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

3 Effective for annual periods beginning on or after 1 January 2010

4 Effective for transfers on or after 1 July 2009

The adoption of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition dates are 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 other new and revised standards, amendments or interpretations will have no material impact on the results and 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, for the period. The Group's operation is the production and sale of gear products.

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard, IAS 14 "Segment Reporting", required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

In the past, the Group's primary reporting format was geographical segments. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14. Nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss and segment assets. The Group's reportable segments under IFRS 8 are therefore identical to the geographical segments under IAS 14.

The following is an analysis of the Group's revenue and results by operating segment for the Period under Review. People's Republic of China ("PRC") and Europe (mainly including Italy) are the two major operating segments reviewd by the CODM while the remaining market locations are grouped together to report to CODM for analysis.

	Six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
Revenue		
— PRC	1,859,271	1,045,169
— Europe	60,682	212,302
— Others	113,093	92,786
	2,033,046	1,350,257
Segment profit		
— PRC	543,720	324,221
— Europe	17,746	43,709
— Others	33,073	24,307
	594,539	392,237
Other income	20,820	32,535
Other gain and losses	(55,579)	75,529
Finance costs	(57,715)	(8,625)
Share of results of associates	249	(912)
Share of results of jointly controlled entities	(4,425)	—
Unallocated expenses	(192,235)	(204,136)
Profit before taxation	305,654	286,628

Segment profit represents the profit earned by each segment without allocation of certain expenses (including corporate administrative expenses, research and development costs and other expenses), other gain and losses, finance costs, share of results of associates and share of results of jointly controlled entities. This is the measure reporting to the Group's board of directors for the purposes of resources allocation and performance assessment.

4. OTHER GAIN AND LOSSES

	Six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
Gain on fair value change of derivative financial instrument	657,489	121,569
Loss on partial termination of derivative financial instrument	(393,219)	—
Loss on fair value change of convertible bonds	(319,849)	(46,040)
	(55,579)	75,529

5. TAXATION

	Six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
PRC enterprise income tax		
— Current period	50,575	40,950
— Under(over) provision in respect of prior period	4,640	(600)
— Other tax benefit	—	(12,765)
	55,215	27,585
Deferred tax		
— Current period	(3,682)	5,872
— Attributable to a change in tax rate	—	163
	(3,682)	6,035
	51,533	33,620

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

Taxation arising in the PRC is calculated at 25% (2008: 25%) 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. and Nanjing High Accurate Marine Equipment Co., Ltd. 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% for the six months period ended 30 June 2009 and 2008.

Nanjing High Speed & Accurate Gear (Group) Co., Ltd. and Nanjing Gaote Gear Box Manufacturing Co., Ltd. are entitled to a 50% relief from EIT for the six months period ended 30 June 2009 and 2008.

There was no significant unprovided deferred taxation for the period or at the end of the reporting period.

6. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting) the following items:

	Six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
Allowance for inventories	3,597	2,357
Amortisation of intangible assets (included in administrative expenses)	9,502	9,671
Bank interest income	(7,411)	(27,619)
Depreciation of property, plant and equipment	95,269	54,012
Exchange loss, net (included in other expenses)	31,083	29,762
Gain on disposal of property, plant and equipment	—	(54)
Impairment loss on trade receivables	1,766	4,055
Release of prepaid lease payments	2,727	504
Transaction costs on convertible bonds (included in other expenses)	—	34,935

7. DIVIDENDS

During the period, a dividend of HK25 cents, equivalent to RMB22 cents per share and amounting to approximately RMB274 million, (2008: HK8 cents, equivalent to RMB7 cents per share and amounting to approximately RMB88 million) per share was declared to shareholders as the final dividend for 2008.

The directors do not propose the payment of an interim dividend for the six-month period ended 30 June 2009 (2008: nil).

8. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2009	**2008**
	RMB'000	*RMB'000*
Earnings		
Profit for the period attributable to owners of the Company	254,410	252,767
	'000	*'000*
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	1,245,000	1,245,000
Effect of dilutive potential ordinary shares in respect of share options	6,316	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	1,251,316	1,245,000

The calculation of diluted earnings per share for the six months ended 30 June 2008 does not assume the conversion of convertible bonds which would result in an increase in earnings per share.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB829,696,000 (six months ended 2008: RMB557,817,000) for the purpose of expanding the Group's business.

10. TRADE AND OTHER RECEIVABLES

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
Notes receivable	166,606	388,274
Accounts receivables	919,277	613,941
Less: allowance for doubtful debts	(35,541)	(33,775)
Total trade receivables	1,050,342	968,440
Advances to suppliers	287,823	277,302
Value added tax recoverable	8,564	29,628
Others	20,921	18,876
Total trade and other receivables	1,367,650	1,294,246

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, presented based on the invoice date and net of allowance for doubtful debts, at the end of the reporting period:

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
0 — 90 days	852,608	849,611
91 — 120 days	33,816	47,207
121 — 180 days	70,767	17,350
181 — 365 days	40,721	24,632
Over 365 days	52,430	29,640
	1,050,342	968,440

11. TRADE AND OTHER PAYABLES

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
Notes payable (note)	627,740	572,875
Accounts payables	389,720	562,879
Total trade payables	1,017,460	1,135,754
Advances from customers	571,506	679,694
Payable for acquisitions of property, plant and equipment	165,860	139,048
Payroll and welfare payables	33,819	49,738
Accrued expenses	4,191	4,542
Value added tax payable	15,508	7,020
Others	30,294	33,144
Total trade and other payables	1,838,638	2,048,940

Note: Notes payable are secured by the Group's own assets as set out in note 16.

The following is an aged analysis of the Group's trade payables, presented based on the invoice date, at the end of the reporting period:

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
0 — 30 days	788,516	984,310
31— 60 days	157,481	69,915
61 — 180 days	51,835	55,851
181 — 365 days	9,854	15,417
Over 365 days	9,774	10,261
	1,017,460	1,135,754

12. BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately RMB2,033,050,000 (six months ended 2008: RMB10,000,000). The borrowings bear fixed interest at interest rates ranging from 4.8% to 6.1% per annum and are repayable within 1 to 2 years. The Group also repaid borrowings of approximately RMB709,521,000 (six months ended 2008: RMB423,932,000) during the period.

13. CONVERTIBLE BONDS

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds, of aggregate principal amount of RMB1,996.3 million. The convertible bonds are listed in Singapore and convertible at the option of bond holders into fully paid shares with a par value of US$0.1 each of the Company at a conversion price of HK$17.78 per share, with a fixed exchange rate of HK$1.00 to RMB0.8968 for conversion, but will be subject to adjustment for, among other things, subdivision or consolidation of shares, bonus issues, rights issues, distribution and other dilutive events. If the bonds have not been converted, they will be redeemed on 14 May 2011 at an amount equal to the USD equivalent of its principal amount in RMB multiplied by 109.3443%. The Company, however, has the options to (i) request for mandatorily conversion of all or some only of the convertible bonds provided that the closing price of the shares, for 20 out of 30 consecutive trading days, was at least 120% of the early redemption amount in effect on such trading days divided by the conversion ratio; or (ii) redeem the outstanding convertible bonds in whole, but not in part, in the event that at least 90% of the convertible bonds have been redeemed, purchased, converted or cancelled. Due to the existence of a cash settlement option in the event of conversion, whereas the Company can settle in cash in lieu of delivery of the relevant shares to the bondholders, the convertible bonds are regarded as financial liabilities with embedded derivatives for the conversion and redemption options and the entire convertible bonds were designated as financial liabilities at fair value through profit or loss.

The movement of convertible bonds for the current period is set out below:

	RMB'000
As at 1 January 2009	931,550
Loss on fair value change of convertible bonds	319,849
As at 30 June 2009	1,251,399

The fair value of the entire convertible bond instrument containing the debt component and the embedded derivatives are measured using quoted asked price of the bond as at 30 June 2009.

14. DERIVATIVE FINANCIAL INSTRUMENT

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds as disclosed in note 13, the Company entered into a cash settled equity swap transaction (the "Equity Swap") with Morgan Stanley & Co. International plc (the "Equity Swap Counterparty") for 81.4 million shares of the Company up to a value of HK$1,113 million (equivalent to approximately RMB982 million). The Company is required to deposit the corresponding initial exchange amount of RMB982 million (equivalent to HK$1,113 million) with the Equity Swap Counterparty as restricted cash for the Equity Swap which carried no interests.

Upon the termination of the Equity Swap, the Company will receive a payment from the Equity Swap Counterparty if the final price of the Company's share is higher than the initial price or will settle the payment to the Equity Swap Counterparty if the final price is lower than the initial price. The initial price is HK$13.6783 (equivalent to approximately RMB 12.27) and the final price will be determined with reference to the volume weighted average price of the Company's share on the date of settlement. Besides, the Equity Swap will be settled on termination date subject to early termination option of either parties under optional early termination events.

During the period, the Company has early terminated the Equity Swap in respect of 68,758,000 shares out of total 81,370,707 shares, equvalient to 84.5% of the Equity Swap. At the date of settlement, fair value of the Equity Swap is a financial asset of RMB343 million. Settlement amount of the partial early termination is RMB50 million, determined by reference to the difference between the market share price at the date of partial early terimination and initial price. Upon the terimination, the financial asset of the Equity Swap of RMB343 million is released and a total loss on partial early termination of approximately RMB393 million is resulted.

The movement of derivative financial instrument for the current period is set out below:

	RMB'000
As at 1 January 2009	(292,794)
Gain on fair value change	657,489
Payment on partial early termination	50,181
Loss on partial early termination	(393,219)
As at 30 June 2009	21,657

The fair value of the derivative financial instrument is measured using Binomial Option Pricing Model. The valuation of the fair value was carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers.

The inputs into the Binomial Option Pricing Model at the respective valuation dates are as follow:

	1 January 2009	30 June 2009
Exercise price	HK$13.68	HK$13.68
Risk-free rate of interest	0.66%	0.62%
Dividend yield	0.85%	0.62%
Time to expiration	2.41 years	1.91 years
Volatility	72.48%	82.33%

As the derivative financial instrument will be matured on 14 May 2011, it is classified as non-current asset.

15. COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

	30 June 2009 *RMB'000*	31 December 2008 *RMB'000*
Capital expenditure contracted but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	1,207,948	1,656,493

16. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to banks to secure notes payable utilised by the Group:

	30 June 2009 *RMB'000*	31 December 2008 *RMB'000*
Bank deposits	623,809	502,696

17. RELATED PARTY DISCLOSURES

(I) Related party transactions

Name of company	Relationship	Nature of transactions	Six months ended 30 June 2009	2008
			RMB'000	*RMB'000*
ZF Nanjing Marine Propulsion Co., Ltd.	Associate	Sales of goods	10,470	22,186
		Rental income	568	568
		Other income	98	125
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd.	Associate	Purchase of goods	3,861	—
Nanjing High Accurate Construction Equipment Co., Ltd.	Jointly controlled entity	Sales of goods	6,968	—
		Purchase of goods	2,494	—
Jiangsu Hongsheng Heavy Industries Group Co., Ltd.	Jointly controlled entity	Sales of goods	17,319	—
		Purchase of goods	22,216	—

(II) Related party balances

The Group's outstanding balances with a related party (holding company of a minority shareholder), associates and jointly controlled entities are set out on the condensed consolidated statement of financial position.

(III) Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the period was as follows:

	Six months ended 30 June 2009	2008
	RMB'000	*RMB'000*
Short-term benefits	2,896	2,520

The remuneration of directors and key executives were determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

4. **Material Change**

As at the Latest Practicable Date, there is no material change in the financial or trading position or outlook of the Group since 31 December 2008, the date to which the latest published audited financial statements of the Group were made up.

5. **Financial and Trading Prospects**

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. As reported in the 2008 annual report of the Company, product sales of each principal business segment of the Group grew steadily, and results for the year ended 31 December 2008 have been satisfactory.

The Group will continue to increase its domestic and overseas sales. The Group will also adjust the supply quota for overseas and domestic customers when necessary to cope with rising domestic demand for wind gear equipment. The Group will endeavour to optimize product mix, increase the growth points of its business revenue, enhance its industrial competitiveness internationally and continue to make proactive efforts on research and development and market expansion by leveraging on its advantages in a fluctuating market.

6. **Statement of Indebtedness**

As at 31 October 2009, being the most recent practicable date for the purpose of ascertaining certain information relating to this indebtedness statement prior to the printing of this circular, the Group had bank loans of approximately RMB2.036 billion and approximately RMB1.147 billion outstanding convertible bonds.

Save as aforesaid and apart from intra-group liabilities, as at 31 October 2009, the Group did not have any outstanding debt securities, any loan, or other similar indebtedness, mortgages, charges, guarantees or other material contingent liabilities.

SHAREHOLDING AND SHARE CAPITAL

The following table shows the shareholding structure of the Company immediately prior to and upon full exercise of the Share Delivery Option (assuming none of the Bonds are converted into Shares and no further change in the shareholdings after the Latest Practicable Date):

Shareholders	Prior to exercise of Share Delivery Option		Upon exercise of Share Delivery Option	
	No. of Shares	*%*	*No. of Shares*	*%*
Fortune Apex Limited (Note 1)	268,474,024	21.56	268,474,024	21.78
Luckever Holdings Limited (Note 2)	60,338,151	4.85	60,338,151	4.90
Wiaearn Holdings Limited (Note 3)	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	100.00	1,232,451,790	100.00

Notes:

1. 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 Liguo. 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.

2. 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.

3. 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.

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately after the exercise of the Share Delivery Option are as follows:

	Number of shares	Nominal Value US$
Authorised:		
Ordinary shares of US$0.01 each	3,000,000,000	US$ 30,000,000
Issued and fully paid:		
Ordinary shares of US$0.01 each	1,245,064,497	12,450,644.97
As at the Latest Practicable Date	1,245,064,497	12,450,644.97
Less:		
The number of Shares to be cancelled after the exercise of the Share Delivery Option	12,612,707	126,127.07
At the completion of the exercise of the Share Delivery Option	1,232,451,790	12,324,517.9

All the Shares in issue are fully paid up and rank pari passu in all aspects including all rights as to dividends, voting and return of capital.

The Company has not issued any Shares since 31 December 2008, the date to which the latest financial statement of the Company was made up, and up to the Latest Practicable Date. The Company has not repurchased any Shares in the past 12 months immediately preceding the date of this circular.

Save for the 12,000,000 shares which may be issued pursuant to the share option scheme adopted by the Company on 8 June 2007 and the Bonds, as at the Latest Practicable Date, there are no options, warrants and conversion rights in issue affecting the Shares.

Save for the re-organisation disclosed in the prospectus of the Company dated 20 June 2007, the Company has not gone through any re-organisation of capital during the two financial years preceding the date of the Announcement.

On 6 August 2009, 64,497 new Shares were issued at HK$17.2886 each to Clearstream Banking Luxembourg upon conversion of Bonds in the principal amount of RMB1,000,000. Save as disclosed above, there has been no other issuance of new Shares during the two-year period immediately preceding the date of the Announcement.

The Shares to be repurchased by the Company upon exercise of the Share Delivery Option may be issued upon or prior to the listing of the Company on 4 July 2007.

The Company paid a dividend of HK8 cents per share and HK25 cents per share for the year ended 31 December 2007 and 31 December 2008 respectively. The Company may declare dividends, if any, taking into account, among other things, results of operation, cash flows and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, applicable laws and regulations and other factors that the Directors deem relevant. The Company has no plan or intention to alter a dividend policy.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules and the Repurchase Code for the purpose of giving information with respect to the Company. The information contained herein relating to the Company has been supplied by the Directors, who jointly and severally accept full responsibility for the accuracy of information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement herein misleading.

2. INTERESTS OF DIRECTORS

(i) **Interests in securities of the Company**

As at the Latest Practicable Date,

(a) none of the Directors or the chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares and debentures and other securities of the Company carrying voting rights or convertible securities, warrants, options or derivatives of the Company or its associated corporations (within the meaning of Part XV of the SFO) (i) which were required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or (ii) which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or (iii) which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies in the Listing Rules to be notified to the Company and the Stock Exchange.

(b) none of the Directors or any persons acting in concert with them were interested in any Shares, convertible securities, warrants, options or derivatives of the Company.

(c) none of the Directors or any persons acting in concert with them had borrowed or lent any Shares.

(ii) **Dealings in securities of the Company**

None of the Directors or any persons acting in concert with them had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company during the period commencing 6 months preceding 6 November 2009, being the date of the Announcement, and ending on the Latest Practicable Date.

3. INTERESTS OF SUBSTANTIAL SHAREHOLDERS

(i) Interests in securities of the Company

As at the Latest Practicable Date, so far as was known to any Director or chief executive of the Company, the following persons (other than the Director or the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any options in respect of such capital:

Name	Nature of interests	Number of securities held	Approximate percentage of total issued shares of the Company as at the Latest Practicable Date
Fortune Apex Limited *(Note 1)*	Beneficial owner	268,474,024 (long position)	21.56%
JPMorgan Chase & Co *(Note 2)*	Interest of a controlled corporation	87,488,889 (long position)	7.03%
		0 (short position)	0%
		82,175,889 (lending pool)	6.60%

Note:

(1) Fortune Apex Limited owns 21.56% interest in the issued share capital of the Company. Messrs. Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang, Li Shengqiang, Liao Enrong, Jin Maoji, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguo (collectively, the "Management Shareholders") together own 100% interest in the issued share capital of Fortune Apex Limited. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex Limited:

Name	Shareholdings
Mr. Hu Yueming (executive Director)	30.3813%
Mr. Liu Jianguo (executive Director)	12.3989%
Mr. Lu Xun (executive Director)	10.4520%
Mr. Chen Yongdao (executive Director)	10.5343%

Name	Shareholdings
Mr. Li Cunzhang (executive Director)*	8.8945%
Mr. Li Shengqiang (executive Director)	8.9725%
Mr. Liao Enrong (executive Director)	5.3422%
Mr. Jin Maoji	5.9195%
Mr. Yao Jingsheng	2.5678%
Mr. Chen Zhenxing	0.9091%
Mr. Zhang Xueyong	1.1286%
Mr. Xu Yong	0.7376%
Mr. Wang Zhengrong	0.6792%
Mr. Chen Liguo	1.0825%
Total	100%

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

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

(2) These shares were held by JPMorgan Chase & Co. and corporations controlled by it in the respective following capacity:

Capacity	No. of Shares
Beneficial owner	2,313,000 (long position)
Investment manager	3,000,000 (long position)
Custodian corporation / approved lending agent	82,175,889 (long position)

These Shares were held by JPMorgan Chase Bank, N.A., J.P. Morgan Whitefriars Inc., J.P. Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., China International Fund Management Co., Ltd., JPMorgan Asset Management (UK) Limited, JPMorgan Asset Management Holdings (UK) Limited, JPMorgan Asset Management International Limited, JPMorgan Asset Management Holdings Inc., J.P. Morgan Securities Ltd., J.P. Morgan Chase International Holdings, J.P. Morgan Chase (UK) Holdings Limited and J.P. Morgan Capital Holdings Limited, all of which are either directly or indirectly controlled corporations of JPMorgan Chase & Co..

Save as disclosed above and so far as was known to the Directors or chief executive of the Company, there was no other person (other than the Directors or chief executive of the Company) who, as at the Latest Practicable Date, had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or in any options in respect of such capital.

(ii) **Dealings in securities of the Company**

During the period commencing 6 months preceding 6 November 2009, being the date of the Announcement, and ending on the Latest Practicable Date, the following shareholder who holds 10% or more of the voting rights of the Company had dealt for value in the Shares, details of which are as follows:

Name of Shareholder	Date	Number of Shares sold	Selling price per Share (HK$)
Fortune Apex Limited	12 May 2009	65,000,000	13.7

Save as disclosed above, during the period commencing 6 months preceding 6 November 2009, being the date of the Announcement, and ending on the Latest Practicable Date, no Shareholders who hold 10% or more of the voting rights of the Company had dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Company.

4. MARKET PRICES

The table below sets out the closing prices of the Shares as quoted on the Stock Exchange (i) at the end of each of the calendar months during the 6 months immediately preceding 6 November 2009, being the date of the Announcement and ending on the Latest Practicable Date; (ii) 5 November 2009, being the last trading day immediately preceding the date of the Announcement; and (iii) the Latest Practicable Date:

	Closing Price *(HK$)*
29 May 2009	16.30
30 June 2009	15.44
31 July 2009	19.42
31 August 2009	16.72
30 September 2009	15.90
30 October 2009	15.80
5 November 2009	15.86
30 November 2009	18.30
Latest Practicable Date	18.50

The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing 6 months preceding 6 November 2009, being the date of the Announcement, and ending on the Latest Practicable Date were HK$20.20 on 22 July 2009 and HK$13.10 on 14 May 2009 respectively.

5. PREVIOUS SHARE REPURCHASES

The Company has not repurchased any Shares (whether on the Stock Exchange or otherwise) in the twelve months preceding the Latest Practicable Date.

6. LITIGATION

As at the Latest Practicable Date, so far as the Directors are aware, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or arbitration or claim of material importance was pending or threatened against the any member of the Group.

7. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered or proposed to enter into a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than by statutory compensation).

8. MATERIAL CONTRACTS

Save for the Equity Swap and the related amendments, the Amended and Restated Equity Swap and the Bonds Subscription Agreement, neither the Company nor any of its subsidiaries have entered into any material contract (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the announcement of the Amended and Restated Equity Swap.

9. CONSENTS

The Independent Financial Adviser has given and has not withdrawn its consent to the issue of this circular with the inclusion herein of its letter and the references to its name, in the form and context to which it appears.

10. QUALIFICATION

The following is the qualification of the expert which has given opinion or advice which is contained in this circular:

Name	Qualification
Somerley Limited	a licensed corporation to carry out regulated activities of type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) under the SFO

11. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or their respective associates had any interest in any business which competed or was likely to compete, either directly or indirectly, with the business of the Group (as would be required to be disclosed under Rule 8.10 of the Listing Rules if each of them was a controlling shareholder).

12. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection (i) at the offices of Charltons at 10th Floor, Hutchison House, 10 Harcourt Road, Hong Kong during normal business hours on weekdays (Saturdays and public holidays excepted); (ii) on the website of the Company at www.chste.com; (iii) on the website of the Securities and Futures Commission at www.sfc.hk, from the date of this circular up to and including the date of the EGM (and any adjournment thereof) and will also be available at the EGM:

(a) the Memorandum and Articles of Association of the Company;

(b) the Amended and Restated Equity Swap and each of the material contracts as referred to in paragraph 8 - "Material Contracts" of this Appendix;

(c) the letter from the Board;

(d) the letter from the Independent Board Committee, the text of which is set out on pages 22 and 23 of this circular;

(e) the letter from the Independent Financial Adviser dated 24 December 2009, the text of which is set out on pages 24 to 30 of this circular;

(f) written consent from the Independent Financial Adviser referred to in paragraph 9 of this Appendix;

(g) the annual reports of the Company for the years ended 31 December 2007 and 2008, respectively; and

(h) the interim report of the Company for the six months ended 30 June 2009.

13. MISCELLANEOUS

(a) The registered office of the Company is situate at Second Floor of Cayside, Harbour Drive, P.O. Box 30592 S.M.B., Grand Cayman, Cayman Islands.

(b) The head office and principal place of business of the Company in Hong Kong is situate at Room 1302, 13th Floor, Top Glory Tower, No.262 Gloucester Road, Causeway Bay, Hong Kong.

(c) The company secretary and qualified accountant of the Company is Mr. Lui Wing Hong, Edward who is a fellow member of the Hong Kong Institute of Certified Public Accountants.

(d) The principal share registrar and transfer office of the Company is Butterfield Fund Services (Cayman) Limited, Butterfield House, 68 Fort Street, P.O. Box 705, Grand Cayman, KYI-1107, Cayman Islands and its Hong Kong branch share registrar and transfer office is Computershare Hong Kong Investor Services Limited, Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(e) The English text of this circular shall prevail over the Chinese text in the case of any inconsistency.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China High Speed Transmission Equipment Group Co., Ltd. (the "**Company**") will be held at Level 3, the Function Room, JW Marriott Hotel, 88 Queensway, Hong Kong at 9:30 a.m. on 15 January 2010 for the purposes of,

(1) considering and, if thought fit, passing, with or without modification(s), the following resolution as an ordinary resolution to be voted on by way of poll:

ORDINARY RESOLUTION

"**THAT** the amended and restated equity swap dated 6 November 2009 (the "**Amended and Restated Equity Swap**") entered into between the Company and Morgan Stanley & Co. International plc (a copy of which is tabled at the meeting and marked 'A' and initialed by the chairman of the meeting for the purpose of identification), the terms thereof and the transactions contemplated thereunder be and are hereby approved, confirmed and ratified in all respects and any one director of the Company be and are hereby generally and unconditionally authorised to do all such further acts and things and to sign and execute all such other documents, instruments and agreements and to take such steps which in the opinion of the director may be necessary, appropriate, desirable or expedient to implement and/or give effect to the terms of the Amended and Restated Equity Swap and the transactions contemplated thereunder."

(2) considering and, if thought fit, passing, with or without modification(s), the following resolution as a special resolution to be voted on by way of poll:

SPECIAL RESOLUTION

"**THAT** the proposed potential off-market repurchase by the Company of up to 12,612,707 ordinary shares of the Company as contemplated by the Amended and Restated Equity Swap ("**Share Repurchase**") which represent up to approximately 1.01% of the existing issued share capital of the Company be and is hereby approved and any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such other documents, instruments and agreements and to take such steps which in the opinion of the director may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Share Repurchase."

By order of the Board
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
Hu Yueming
Chairman

Hong Kong, 24 December 2009

Head office and principal place of business:
Room 1302
13th Floor
Top Glory Tower
No.262 Gloucester Road
Causeway Bay
Hong Kong

Notes:

1. A member entitled to attend and vote at the meeting shall be entitled to appoint another person as his proxy to attend and, on a poll, vote in his stead. A member who is the holder of two or more Shares may appoint more than one proxy to represent him and, on a poll, vote on his behalf. A proxy need not be a member of the Company.

2. In order to be valid, a proxy form together with any power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority, must be deposited at the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.

3. Pursuant to Article 90 of the Articles of Association of the Company, the Chairman of the meeting will demand a poll on each of the resolutions put to the vote at the meeting.

4. As at the date of this notice, the board of Directors comprises ten Directors, of which Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Lu Xun, Mr. Li Shengqiang, Mr. Liu Jianguo and Mr. Liao Enrong are Executive Directors, Mr. Zhang Wei is Non-Executive Director, Mr. Zhu Junsheng, Mr. Jiang Xihe and Mr. Chen Shimin are Independent Non-Executive Directors.