中國高速傳動設備集團有限公司*

China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

annual report 08

* For identification purpose only

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Zhang Wei

Independent non-executive Directors

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

AUDIT COMMITTEE

Mr. Jiang Xihe *(Chairman of the Committee)*
Mr. Zhu Junsheng
Mr. Zhang Wei

REMUNERATION COMMITTEE

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

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY SECRETARY

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

QUALIFIED ACCOUNTANT

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

Corporate Information

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong
Mr. Lui Wing Hong, Edward

AUDITORS

Deloitte Touche Tohmatsu

HONG KONG LEGAL ADVISERS

Charltons

COMPLIANCE ADVISER

Guotai Junan Capital Limited

PRINCIPAL BANKERS

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

WEBSITE

www.chste.com

PLACE OF LISTING

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

Performance Highlights

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

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

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

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

I am pleased to present the 2008 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the "Company"). For the year ended 31 December 2008 (the "period under review"), the Company and its subsidiaries (collectively referred to as the "Group") recorded a turnover of approximately RMB3,439,220,000, representing an increase of approximately 80.6% over 2007; Net profit was approximately RMB692,415,000, representing an increase of 125.8% over last year; The gross profit margin for the year was 28.8%. The Group's stable growth over the previous year was attributable to the hard work and dedication of our staff and the confidence in and support to us from all circles. I would like to take this opportunity to express my sincere gratitude to shareholders, investors, management members, members of the board of directors and all our staff.

During the period under review, products sales of each principal business segment of the Group grew steadily: sales of wind gear transmission equipment grew by 151.0% to RMB1,800,766,000 and its capacity was expanded to approximately 3,500 MW during the period under review. Such a growth were due to the significant world demand for renewable energy, and the proactive policies and measures adopted by the PRC government to encourage the use of renewable energy and green power generation which led to the increasing domestic demand for wind gear transmission equipment. The marine gear transmission equipment segment continued to grow. Owing to the further cooperation with ZF China Investment Co., Ltd. ("ZF China"), a company affiliated to Germany ZF Company, to further strengthen its efforts in the sales on international markets, sales revenue of marine gear transmission equipment increased by 193.4% to RMB397,954,000. The economic stimulus package initiated by the government supporting the infrastructure projects benefited our gear transmission equipment for light rails and high-speed rails segment. Traditional transmission products segment also recorded stable growth, with its sales revenue increased by 17.9% to RMB1,240,500,000.

During the period under review, the Group made breakthroughs in technological research and development. With regard to wind gear transmission equipment, the Group has commenced bulk production of the 1.5MW gear box jointly developed by the Group and GE. The 2.5 MW gear box jointly developed with GE entered into an experiment stage, and is planned to commence commercial production in 2010 upon success in experiment. The testing of the 3.0 MW gear box jointly developed with Goldwind is expected to be completed by end of 2009. With regard to gear transmission equipment for light rails and high-speed rails, the products of the Company passed the testing by ALSTOM Group in April 2008, and have been installed in the high-speed trains in places such as Beijing, Shanghai and Nanjing for field testing.

During the period under review, the Group penetrated further into overseas markets. Exports sales increased by 140.0% to RMB754,280,000 over last year. Currently, the export sales of the Group mainly derived from wind gear transmission equipment and marine gear transmission equipment. In respect of international customers, in addition to the existing international customers such as GE Energy, RE Power and Nordex, the Company also entered into contracts with Vestas this year, and commenced supply of relevant products to them from 2009. During the period under review, overseas sales accounted for 21.9% of the total sales, evidencing the quality of our products has attained the international level and won recognition from various customers. Measures taken by the Chinese government to drive domestic demand also led to a significant increase in the demand for wind gears, or even a short supply of wind gears, in China. In addition, the Company entered into a sales order with Sinovel, a large domestic wind turbine manufacturer, to commence supply from 2009.

Chairman's Statement

In view of the sustained and fast business growth of the Group and its full confidence towards the future, the Company issued convertible bonds in May 2008 and entered into an equity swap contract with a term of three years with the lead manager to hedge the risks brought by the share price increasing to a level above the initial price. The issue was beneficial to the business growth of the Group under the then prevailing market condition. However, the financial tsunami together with the fact that some companies suffered losses from their investments involving derivatives aroused market concerns over the activities of enterprises in this regard. To remove investors' worries and for the best interests of the Group and the shareholders, the Group decided to further purchase bonds through over-the-counter transactions at a time when the market valuation of bonds was attractive. Currently, the Company has purchased approximately 42.5% of the bonds. During the period under review, by virtue of its strong strengths and sound financial condition, the Group successfully turned crisis into opportunities and recorded a revenue of approximately RMB107,941,000 from the repurchase of convertible bonds, which helped to redeem the market confidence.

In addition to the confidence vote cast by investors, the Company also received support form State leaders with a number of State leaders paying visits to the plants of the Group, details of which are:

- On 10 January 2009, Premier Wen Jiabao paid a visit to the plants of the Company during his inspection tour to Jiangsu Province.
- On 2 February 2009, Vice Premier Wang Qishan paid a visit to the plants of the Company with a group of officers.
- On 31 October 2008, Vice Premier Zhang Dejiang paid a visit to the plants of the Company during his inspection tour to Jiangsu Province.
- On 13 February 2009, State Council member Liu Yandong paid a visit to the plants of the Company.
- Mr. Zhang Guobao, head of the Chinese National Energy Administration, paid visits to the Company on 20 September 2008.

The rapid development of the Group in recent years is highly appreciated and recognized by superordinate leaders, who have also expressed their support and appreciation for the sustained growth achieved by the Group amidst the financial crisis.

Looking forward, the exploitation of renewable energy will be a global focus. As the new U.S. president Barack Obama plans to invest US$ 150 billion in ten years to boost the development of renewable energy, the Chinese government will also make continuous efforts to develop wind power facilities. Furthermore, the National Development and Reform Commission announced at the national development and reform work conference that it will make vigorous efforts to support the equipment manufacturing industry, and the Group was granted earlier by the government an interest subsidy of RMB 25 million. Besides, the Chinese government will proactively facilitate the construction of high-speed passenger transport network between cities pursuant to the Eleventh Five-year Plan, which is beneficial to the development of the light rail and high-speed rail gear equipment business of the Group.

In 2009, the Group will continue to increase its domestic and overseas sales. Meanwhile, the Group will adjust the supply quota for overseas and domestic customers when necessary to cope with the rising domestic demand for wind gear equipment. The Group will endeavour to optimise 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, so as to become a leading international transmission equipment supplier and bring maximum returns for its shareholders.

Hu Yueming
Chairman
17 April 2009

BUSINESS REVIEW

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

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

PRINCIPAL BUSINESS REVIEW

Wind gear transmission equipment

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

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

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

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

Marine gear transmission equipment

Dramatic sales increase in the overseas markets

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

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

Transmission equipment for high-speed trains and urban light rails

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

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

Traditional transmission products

Market sales of new products remain strong

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

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

LOCAL AND EXPORT SALES

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

PATENTED PROJECTS

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

PLACE EMPHASIS ON THE DEVELOPMENT OF THE GROUP'S TALENT POOL AND IMPROVE COMPETITIVENESS IN THE INTERNATIONAL MARKET

As the Group is now operating in the international market, it is effective for the Group to enhance its competitiveness through the development of a team of talent. Therefore, the Group will strengthen the development of its R&D team while making further investment in the improvement of its production capacity. The Group will strive to cultivate a team of talent specialising in technology, international sales and corporate management. Supported by these talents, the Group will have strong competitiveness in the international market and become a leading manufacturer worldwide.

DIVIDEND

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

FINANCIAL PERFORMANCE

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

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

REVENUE

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

GROSS PROFIT MARGIN AND GROSS PROFIT

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

OTHER INCOME, OTHER GAINS AND LOSS

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

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

DISTRIBUTION COSTS

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

FINANCE COSTS

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

FINANCIAL RESOURCES AND LIQUIDITY

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

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

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

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

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

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

GEARING RATIO

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

CAPITAL STRUCTURE

CONVERTIBLE BONDS

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

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

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

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

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

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

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

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

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

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

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

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

EQUITY SWAP

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

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

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

USE OF PROCEEDS FROM THE COMPANY'S INITIAL PUBLIC OFFERING

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

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

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

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

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

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

PROSPECTS

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

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

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

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

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

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

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

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

PLEDGE OF ASSETS

As at 31 December 2008, bank deposits of approximately RMB502,696,000 (2007: RMB177,265,000) were pledged to banks to secure notes payable utilised by the Group. Save as the above, the Group has made no further pledge of assets in 2008.

CONTINGENT LIABILITIES

As at 31 December 2008, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 31 December 2008, the Group had expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment, and outstanding commitments payable under non-cancelable operating lease in respect of rented premises of approximately RMB1,656,493,000 and RMB53,051,000 respectively (2007: RMB942,344,000 and RMB54,469,000). Details are set out in notes 36 and 38 to the notes to the consolidated financial statements respectively.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

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

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

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

INTEREST RATE RISK

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

EMPLOYEES AND REMUNERATION POLICY

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

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

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

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

PENSION SCHEME

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

SIGNIFICANT INVESTMENT HELD

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

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

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

MATERIAL ACQUISITION AND DISPOSAL

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

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

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

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

Directors and Senior Management

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

EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 59, is our Chairman, Chief Executive Officer and executive Director. Mr. Hu is a university graduate and a senior engineer by profession. He gained management experience by initially serving as the deputy head of the equipment section of Nanjing Engineering Equipment Factory (南京工藝裝備廠) and then its deputy workshop head and deputy factory manager. He later served as the deputy general manager of Nanjing Engineering Equipment Factory (南京工藝裝備廠) and the general manager of Nanjing Atlas Copco Construction Machinery Ltd. Mr. Hu has engaged himself in the management of machinery and industrial enterprises for more than 20 years and has worked as a factory director and a general manager of various state-owned enterprises and foreign-invested enterprises. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. He became the vice-chairman and the general manager of Nanjing High Speed & Accurate Gear (Group) Co., Ltd.) ("NGC") in August 2001. Mr. Hu also holds directorship in certain subsidiaries of the Group, namely Nanjing Gaote Gear Box Manufacturing Co., Ltd. (formerly known as Nanjing Ningjiang Gear Box Manufacturing Co., Ltd.) ("Gaote"), Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("Nanjing Dongalloy"), Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), Nanjing Ningkai Mechanical Co., Ltd. ("Ningkai"), Nanjing High Accurate Wind Power Transmission Equipment Co., Ltd. ("Nanjing Wind Power"), Nanjing Ningtai Property Management Co., Ltd. ("Ningtai"), Nanjing Yongte Gear Box Manufacturing Co., Ltd. ("Yongte"), Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine"), Nanjing High Accurate Drive Equipment Manufacturing Corporation Limited ("Nanjing Drive"), Nanjing Ninghongjian Mechanical Co., Ltd. ("Ninghongjian"), Eagle Nice Holdings Limited ("Eagle Nice"), Goodgain Group Limited ("Goodgain") and China Transmission Holdings Limited ("China Transmission Holdings").

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

Mr. Chen Yongdao, aged 46, is our executive Director. Mr. Chen is a postgraduate in economics and a senior engineer by profession. He was initially the deputy head of the inspection and gauging section of Nanjing High Speed Gear Factory, head of the production allocation section of the factory and then deputy general Manager. He became a director and the deputy general manager of NGC in August 2001. Mr. Chen also holds directorship in certain subsidiaries of the Group, namely Nanjing Dongalloy, Nanjing High Speed, Ningkai, Nanjing Marine, Nanjing Drive and China Transmission Holdings. Mr. Chen, an expert on heat treatment of metallic materials, has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment for more than 20 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Lu Xun, aged 54, is our executive Director. Mr. Lu is a university postgraduate and senior engineer by profession. He initially worked as the deputy head of the quality assurance section, then deputy head of the technology section, then head of the operational planning section, then deputy Chief Economist, then head of the operational planning division, and then deputy general manager of Nanjing High Speed Gear Factory. He became a director of and also deputy general manager of NGC in August 2001. Mr. Lu also holds directorship in certain subsidiaries of the Group, namely Nanjing High Speed, Nanjing High Speed Gear (Shenyang) Sales Co., Ltd. ("Shenyang Sales Co."), Eagle Nice, Goodgain, Nanjing Drive and China Transmission Holdings. Mr. Lu, an expert on marketing management for mechanical transmission equipment, has engaged in the marketing of mechanical transmission equipment for more than 20 years and has rich experience in marketing management and client resources.

Mr. Li Shengqiang, aged 55, is our executive Director. Mr. Li is a university graduate. He initially worked as a deputy secretary of the youth corps committee in Nanjing High Speed Gear Factory, then the deputy party secretary of the tools section of Nanjing High Speed Gear Factory, then Chairman of the Workers' Union of Nanjing High Speed Gear Factory, and later general manager of Yongte. He became a director of NGC in August 2001, and deputy general manager of NGC in March 2004. Mr. Li also holds directorship in certain subsidiaries of the Group, namely Gaote, Nanjing High Speed, Ningkai, Yongte, Nanjing Wind Power, Eagle Nice, Goodgain, Nanjing Drive and China Transmission Holdings. He is also the general manager of Gaote. Mr. Li has engaged in the enterprise management of our Group for more than 25 years and has rich experience in mechanical transmission equipment production management.

Mr. Liu Jianguo, aged 39, is our executive Director. Mr. Liu is a university graduate and a senior engineer by profession. He was first the deputy head and then head of the research centre of Nanjing High Speed Gear Factory, then assistant general manager, acting chief engineer and then chief engineer of the factory. He became a director, deputy general manager and also chief engineer of NGC in August 2001 and has become a general manager of Nanjing High Speed since January 2005. Mr. Liu also holds directorship in certain subsidiaries of the Group, namely Gaote, Nanjing High Speed, Ningkai, Nanjing Wind Power, Yongte, Nanjing Drive, Ninghongjian and China Transmission Holdings. Mr. Liu has engaged in the research, design and development of mechanical transmission equipment for more than ten years and has received a number of technological achievement awards for his R&D efforts in mechanical transmission equipment.

Mr. Liao Enrong, aged 48, is our executive Director and director of NGC. Mr. Liao is a postgraduate and a senior engineer by profession. He joined the Nanjing High Speed Gear Factory in 1984 and worked as its deputy head and then head of the workshop, then head of the technological reform section, then deputy chief engineer, then head of the enterprise management section, then assistant to general manager. He has been the secretary to the board of directors of NGC since August 2001, and was the assistant to NGC's general manager and the head of NGC's investment operations division since September 2001. Mr. Liao has been a deputy general manager of NGC since January 2003. Mr. Liao has experience in the heat treatment of metallic materials and has spent more than 20 years in technical and investment management. Mr. Liao also holds directorship in certain subsidiaries of the Group, namely Nanjing Dongalloy, Nanjing High Speed, Ningkai, Shenyang Sales Co., Nanjing Wind Power, Nanjing Marine, Goodgain, Nanjing Drive, Ninghongjian and China Transmission Holdings.

NON-EXECUTIVE DIRECTOR

Mr. Zhang Wei, aged 44, is our non-executive Director. Mr. Zhang is a university graduate in semi-conductor physics and a master in business administration. Since 1998, he has been the secretary to the board of directors, assistant to the chief executive officer, deputy chief executive officer, director and chief executive officer of Hiteker High Technology Co., Ltd. He is a director and president of Jiangsu Hi-Tech Venture Capital Co. Ltd. ("Jiangsu VC") since August 2005, which in turn owns and controls Wise-Win Technology Limited. Mr. Zhang has been our Director since 27 July 2006. Mr. Zhang is also a director of NGC and China Transmission Holdings, subsidiaries of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xihe, aged 50, is our independent non-executive Director. He passed the examination organized by the examination committee for certified accountants, the Ministry of Finance and obtained professional accounting qualification recognized in the PRC in July 1999. He is currently a professor at the Faculty of Accounting and Financial Management of Nanjing Normal University (南京師範大學) and the deputy dean of Jinling Girl's College, Nanjing Normal University (南京師範大學). He graduated from the Faculty of Accounting at the Central University of Finance and Economics (中央財經大學) in June 1990. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association. The Directors have evaluated Mr. Jiang's professional qualification and are satisfied that he has the appropriate qualification for the purpose of Rule 3.10(2) of the Listing Rules. Mr. Jiang joined the Company on 8 June 2007 as independent non-executive Director.

Mr. Zhu Junsheng, aged 69, is our independent non-executive Director. He is experienced in the renewable energy industry, one of the markets that our products are focused on. Mr. Zhu is currently director of the Renewable Energy Professional Committee of the China Association of Resource Comprehensive Utilisation, honorary president of the wind machinery branch of the Chinese Farm Machinery Industrial Association and a board member of the China Energy Research Society. Mr. Zhu joined the Company on 8 June 2007 as independent non-executive Director.

Mr. Chen Shimin, aged 50, is our independent non-executive Director. He is a professor of accounting at China Europe International Business School (CEIBS). He is also a guest professor and Ph.D. supervisor of the Department of Accounting, Nanjing University and School of Accounting, Shanghai University of Finance and Economics. Mr. Chen obtained the qualification of management accountant registered in the United States, and is a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen obtained a bachelor degree and a master degree in economics (majoring in accounting) from Shanghai University of Finance and Economics in 1982 and 1985, respectively. He also obtained a doctorial degree majoring in accounting from the University of Georgia, the United States, in 1992. He has extensive education and research experience in domestic and overseas financial accounting and management accounting. Previously, he was a teacher in a number of universities, including Shanghai University of Finance and Economics, Lingnan University, Hong Kong Polytechnic University, Clarion University of Pennsylvania and Clarion University of Pennsylvania. Mr. Chen has published a large amount of articles concerning researches on Chinese and American accounting in well known domestic and overseas academic journals, won a number of academic awards and hosted researches on a number of subjects. He is also a contributing author in Asian Accounting Handbook and Accounting and Auditing in the People's Republic of China. Since 2005, Prof. Chen has been an executive editor of China Accounting and Finance Review. Mr. Chen joined the Company on 8 June 2007 as an independent non-executive director. Currently, he is an independent non-executive director of Shanghai Oriental Pearl (Group) Co., Ltd.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 46, is our chief financial officer, company secretary and qualified accountant. He is responsible for the financial and accounting management and secretarial affairs of the Company. He graduated from York University with a Bachelor of Arts degree in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is an associate member of the Australian Society of Certified Practising Accountants and a member fellow of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Group in June 2006. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Company. He is currently the independent non-executive director of Zhejiang Shibao Company Limited (a company listed on GEM of the Stock Exchange).

Ms. Zhou Jingjia, aged 45, is the financial controller of NGC. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. From 1 January 2006, Ms. Zhou was transferred from Nanjing Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the country manager overseeing the accounting departments of the Atlas Copco Group's certain product companies in China. Ms. Zhou graduated from Suchou University in 1986, majoring in accountancy. Ms. Zhou is a member of the CICPA and a qualified accountant by profession. Ms Zhou joined the Group in July 2006. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Speed, Nanjing Drive and China Transmission Holdings.

Mr. Zhang Xueyong, aged 45, is the deputy head of the financial department of NGC. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in January 1985 and was appointed as the deputy head of the financial department of Nanjing High Speed Gear Factory in December 2000. He has become the deputy head of the financial department of NGC since its establishment in August 2001. Mr. Zhang graduated from Agricultural Economics and Trade Institute, Nanjing Agricultural University (南京農業大學) in 1990. Mr. Zhang is a qualified accountant by profession. He is one of the members of the group of controlling shareholders of the Company ("Management Shareholders").

Mr. Wang Zhengbing, aged 37, is the deputy general manager of Nanjing High Speed. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1993. Upon the establishment of NGC in August 2001, Mr. Wang has been employed by NGC since September 2001. He has been appointed as the deputy general manager of Nanjing High Speed since 2003. Mr. Wang took up two positions, namely the head of production planning department and the deputy general manager of Nanjing High Speed from July 2003 to December 2004, and has focused on his position as the deputy general manager of Nanjing High Speed since January 2005. Mr. Wang is also a director Ninghongjian, a subsidiary of the Company, Mr. Wang graduated from Zhejiang University (浙江大學) in 1993 and specialized in metallic materials and thermo processing. Mr. Wang is a senior engineer by profession.

Mr. Wang Zhengrong, aged 42, is the deputy general manager of Nanjing High Speed. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1988 and was appointed as head of technology department (工藝處) of Nanjing High Speed Gear Factory in December 2000. Upon the establishment of NGC in August 2001, Mr. Wang has been employed by NGC since September 2001. In May 2004, Mr. Wang was appointed as the head of technology department of Nanjing High Speed. He has been appointed as the deputy general manager of Nanjing High Speed since July 2006. Mr. Wang is also a director of Ninghongjian, a subsidiary of the Company, Mr. Wang graduated from Chengdu University of Science and Technology (成都科技大學) in 1988 and specialized in machinery design and manufacture. Mr. Wang is a senior engineer by profession. He is also one of the Management Shareholders.

Mr. Xu Yong, aged 36, is the deputy head of the financial department of NGC. He is also the assistant to general manager as well as the head of financial department of Nanjing High Speed. Mr. Xu joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1994. He was appointed as the head of financial department of Nanjing High Speed in December 2003 and also as the assistant to general manager of Nanjing High Speed in January 2005. Mr. Xu has been the deputy head of the financial department of NGC since January 2007 in addition to his then position in Nanjing High Speed as the assistant to general manager as well as the head of financial department. Mr. Xu graduated from Nanjing Institute of Economics and specialized in accounting in 1994. He also obtained the MBA degree from Macau University of Science and Technology (澳門科技大學) in August 2006. Mr. Xu is a qualified accountant by profession. He is also one of the Management Shareholders.

Mr. Zhou Zhijin, aged 36, is the deputy general manager of Nanjing High Speed. Mr. Zhou joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1991. Upon the establishment of NGC in August 2001, Mr. Zhou joined NGC in September 2001 as the deputy head of human resources department. He has been the deputy general manager of Nanjing High Speed since July 2006. Mr. Zhou graduated from Nanjing Institute of Technology (南京工業學校) in 1991 and pursued further studies in management in School of Distance Learning of the Party School of the Central Committee of the Chinese Communist Party (中共中央黨校函授學院) from 2002 to 2004.

The Directors of the Company is pleased to present the Directors' report and the audited financial statements of the Group for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES

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

Details of the principal activities of the subsidiaries, associates and jointly controlled entities of the Company are set out in notes 42, 18 and 19 to the notes to the consolidated financial statements respectively.

OPERATION RESULTS

The operation results of the Group for the year ended 31 December 2008 are set out in the consolidated income statement on page 43 in the consolidated financial statements.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

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

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

RESERVES

Movements in the reserves of the Company and the Group for the year ended 31 December 2008 are separately set out in note 41 to the notes to the consolidated financial statements and consolidated statement of changes in equity.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2008 was approximately RMB2,664,699,000 (2007: RMB2,476,501,000).

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2008 are set out in note 15 to the notes to the consolidated financial statements.

SHARE CAPITAL

Details of the registered and issued share capital of the Company are set out in note 34 to the notes to the consolidated financial statements.

DONATION EXPENDITURE

During 2008, the donation expenditure of the Group was approximately RMB1,700,000 (2007:RMB1,000,000).

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

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

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 June 2007 pursuant to the written resolutions of all shareholders of the Company, the summary of which is set out in note 35 to the notes to the consolidated financial statements.

Option granted must be taken up within 12 months of the date of grant, upon payment of HK$1 per option. Options may be exercised at any time after the date of acceptance of share options and prior to the expiry of 10 years from the date of acceptance. 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.

Share options do not confer rights to the holders to receive dividends or vote at shareholder's meetings.

As at 6 November 2008, the Company granted share options over a total of 12,000,000 shares to its employees pursuant to the share option scheme at an exercise price of HK$ 5.60 per share. The share options granted to and accepted by the grantees may be exercised at any time after the respective date of acceptance of share options and prior to the expiry of 5 years from the date of acceptance.

The following table sets out the movements in the Company's share options during the period:

					Number of share options					
Grantee(s)	Date of grant	Exercisable period (note 1)	Vesting period	Exercise price per share HK$ (notes 2&3)	Granted during the year (note 4)	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 1 January 2008	Outstanding as at 31 December 2008 (notes 5&6)
Qualified employees	6 November 2008	6 November 2008 to 5 November 2013	Nil	5.60	12,000,000	—	—	—	—	12,000,000
Total					12,000,000	—	—	—	—	12,000,000

SHARE OPTION SCHEME *(Continued)*

Notes:

1. The exercisable period of share options granted to employees is five years commencing from the date of acceptance.

2. The closing price of the Company's shares on the date of grant was HK$ 5.60.

3. The average closing price of the Company's shares for the five business days immediately preceding the date of grant was HK$5.536.

4. The share options were vested immediately at the date of grant.

5. No option had been exercised during the period under review.

6. The fair value of the share options determined at the date of grant using the Binomial model is approximately RMB30,030,000.

MAJOR SUPPLIERS AND CUSTOMERS

The purchase amount of the Group's five major suppliers and the largest supplier were approximately RMB797,669,000 and RMB191,733,000, representing 29.2% and 7.0% of the total purchase amounts respectively. Besides, the revenue amount of the Group's five major customers and the largest customer were approximately RMB1,479,253,000 and RMB354,035,000, representing 43.0% and 10.3% of the total revenue amounts respectively. All transactions between the Group and relevant suppliers and customers were carried out on normal commercial terms.

To the best knowledge of the Directors, none of Directors and any shareholders holding over 5% of the Company's shares and their associates (within the meanings of the Listing Rules) had any interests in the above five major suppliers and customers for 2008.

DIRECTORS' SERVICE CONTRACTS

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

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

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

Directors' Report

DIRECTORS AND THEIR TERMS

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

Executive Directors:	
Mr. Hu Yueming	Three years from 4 July 2007
Mr. Chen Yongdao	Three years from 4 July 2007
Mr. Lu Xun	Three years from 4 July 2007
Mr. Li Shengqiang	Three years from 4 July 2007
Mr. Liu Jianguo	Three years from 4 July 2007
Mr. Liao Enrong	Three years from 4 July 2007
Non-executive Directors:	
Mr. Zhang Wei	Three years from the date of his re-election on 20 June 2008
Mr. Wang Qi	Resigned on 21 May 2008
Mr. Zhu Keming	Resigned on 24 November 2008
Independent non-executive Directors:	
Mr. Jiang Xihe	Three years from 4 July 2007
Mr. Zhu Junsheng	Three years from the date of his re-election, 20 June 2008
Mr. Chen Shimin	Three years from the date of his re-election, 20 June 2008

DIRECTORS' INTERESTS IN CONTRACTS

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

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

As at 31 December 2008, none of the Directors or the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would be required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

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

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

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

As at 31 December 2008, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name	Nature of interests	Number of securities held	Approximate percentages to the equity (%)
Fortune Apex Limited (Note 1)	Beneficial owner	333,474,024 (Long postiton)	26.79 (Long postiton)
Morgan Stanley (Note 2)	Interest of a controlled corporation	103,053,977 (Long Position)	8.27 (Long Position)
		98,598,289 (short Position)	7.91 (short Position)
JPMorgan Chase & Co.(Note 3)	Beneficial owner and custodian corporation/approved lending agent	88,230,367 (Long Position)	7.09 (Long Position)
		900,000 (short Position)	0.07 (short Position)
		85,781,496 (Lending Pool)	6.89 (Lending Pool)
The Capital Group Companies, Inc.(Note 4)	Investment manager	87,474,000 (Long Position)	7.03 (Long Position)
Schroder Investment Management (Hong Kong) Limited (Note 5)	Investment manager	62,636,000 (Long Position)	5.03 (Long Position)

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

Note:

(1) Fortune Apex Limited owns 26.79% interest in the issued share capital of the Company. Messrs. Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang, Li Shengqiang, Liao Enrong, Jin Maoji, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguo (collectively, the "Management Shareholders") together own 100% interest in the issued share capital of Fortune Apex Limited. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex Limited:

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

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

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

(2) Morgan Stanley is deemed to have an interest in these shares through its direct or indirect controlling interests in the following companies, namely Morgan Stanley Capital Management, L.L.C., Morgan Stanley Domestic Holdings, Inc., Morgan Stanley International Incorporated, Morgan Stanley International Holdings Inc., Morgan Stanley Asia Pacific (Holdings) Limited, Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley & Co. International plc., MSDW Equity Financing Services (Luxembourg) S.a.r.l., Morgan Stanley (Hong Kong) Holdings Limited, Morgan Stanley Hong Kong 1239 Limited, Morgan Stanley Hong Kong 1238 Limited, Morgan Stanley Asia Securities Products LLC, Morgan Stanley Hong Kong Securities Limited, Morgan Stanley Swiss Holdings GmbH and Morgan Stanley & Co, Inc.

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

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

Capacity	No. of Shares
Beneficial owner	2,448,871 (long position) 900,000 (short position)
Custodian corporation/approved lending agent	85,781,496 (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., 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..

(4) The Capital Group Companies, Inc. was interested in these Shares in its capacity as investment manager. The 87,474,000 Shares were held indirectly by The Capital Group Companies, Inc. through Capital Guardian Trust Company, Capital International, Inc., Capital International Limited and Capital International S.A..

(5) These Shares were held by Schroder Investment Management (Hong Kong) Limited in its capacity as investment manager.

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2008, there was no other person, other than the directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed herein, no contracts of significance had been entered into by the Company or its subsidiaries with the controlling shareholders and their subsidiaries as at the balance sheet date or at any time during the year.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2008 are set out in note 40 to the notes to the consolidated financial statements. The Directors of the Company (including our independent executive Directors) believe that the related party transactions set out in note 40 to the notes to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

For the purpose of the related party transactions set out in note 40 to the notes to the consolidated financial statements, the Board of the Company confirms that, under Chapter 14A of the Listing Rules, lease payments to Nanjing Yuhuatai District Saihong Bridge Street Office constituted continuing connected transactions. Since each of the percentage ratios (other than the profits ratio), calculated on an annual basis, is less than 0.1%, it is exempt from the reporting, announcement and independent shareholders' approval requirements under Rule 14A.33 of the Listing Rules.

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

Save as disclosed above, transactions listed in note 40 to the notes to the consolidated financial statements do not constitute discloseable connected transactions under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

As at 31 December 2008, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

PRE-EMPTION RIGHT

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

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the amount of sufficient public float as required under the Listing Rules during the period between the Listing Date and 31 December 2008.

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as our auditor for 2009.

ESTABLISHMENT OF SUBSIDIARIES

Details of the subsidiaries of the Company are set out in note 42 to the notes to the consolidated financial statemnets. The Company established the following wholly-owned subsidiaries during the period under review:

Name of subsidiary	Place and date of incorporation	Registered capital/ issued and fully paid share capital	Principal activities
Century Well Holdings Limited (英威集團有限公司)	Hong Kong 9 January 2008	HK$100	Inactive
北京中傳首高治金成套設備有限公司 (CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.)	PRC 25 April 2008	RMB6,500,000	Metallurgical engineering and manufacturing
南京永發船舶設備製造有限公司 (Nanjing Yongfa Shipping Drive Equipment Co., Ltd.)	PRC 30 April 2008	RMB40,300,000	Manufacture and sales of shipping drive equipment
南京中傳船舶設備有限公司 (Nanjing Zhongchuan Shipping Drive Equipment Co., Ltd.)	PRC 10 June 2008	RMB33,300,000	Manufacture and sales of shipping drive equipment
NGC Transmission Equipment (America) Inc. (南高齒傳動設備（美洲）有限公司)	USA 7 August 2008	US$1,500,000	Sales of gear and its fitting

BANK BORROWINGS

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

TAXATION

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

MATERIAL LITIGATIONS AND ARBITRATIONS

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

By order of the Board
Hu Yueming
Chairman

Hong Kong, 17 April 2009

CORPORATE GOVERNANCE PRACTICES

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

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

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

COMPOSITION AND PRACTICES OF THE BOARD

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

The Board of the Company comprises ten Directors, including six executive Directors, one non-executive Director and three independent non-executive Directors. The Board held fourteen meetings for the year ended 31 December 2008. The attendance of the Directors at Board meetings during the year is as follows:

	Attendance during the year
Executive Directors:	
Mr. Hu Yueming (Chairman and Chief Executive Officer)	14/14
Mr. Chen Yongdao	11/14
Mr. Lu Xun	11/14
Mr. Li Shengqiang	11/14
Mr. Liu Jianguo	11/14
Mr. Liao Enrong	14/14
Non-executive Directors:	
Mr. Zhang Wei	11/14
Mr. Wang Qi (Resigned on 21 May 2008)	4/14
Mr. Zhu Keming (Resigned on 24 November 2008)	8/14
Independent non-executive Directors	
Mr. Jiang Xihe	11/14
Mr. Zhu Junsheng	10/14
Mr. Chen Shimin	11/14

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

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

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

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

Pursuant to Rule 3.13 of the Listing Rules, each of the independent non-executive Directors has confirmed his independence to the Company. Therefore, the Company considers that all independent non-executive Directors are independent parties. The Company has also complied with the requirements in respect of independent non-executive directors under the Rule 3.10 of the Listing Rules.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

NON-EXECUTIVE DIRECTORS

The service term of non-executive director is:

Mr. Zhang Wei	Three years from the date of his re-election, 20 June 2008

The service term of independent non-executive directors is:

Mr. Jiang Xihe	Three years from 4 July 2007
Mr. Zhu Junsheng	Three years from the date of his re-election, 20 June 2008
Mr. Chen Shimin	Three years from the date of his re-election, 20 June 2008

REMUNERATION COMMITTEE

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

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

The remuneration committee held one meeting for the year ended 31 December 2008. The attendance of the members of the remuneration committee at the meetings is as follows:

	Attendance during the year
Executive Directors:	
Mr. Chen Shimin (the Chairman of the committee)	1/1
Mr. Zhang Wei	1/1
Mr. Jiang Xihe	1/1

NOMINATION OF DIRECTORS

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

For the year ended 31 December 2008, the Company has made no appointment of directors.

AUDIT COMMITTEE

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

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

The audit committee held two meetings for the year ended 31 December 2008 to (i) hear the work report prepared by supervisory and audit office of the Group; and (ii) review the interim report and connected transactions of the Group for the year 2008 and report the review conclusions to the Board. The attendance of Directors at such Board meetings is as follows:

	Attendance during the year
Mr. Jiang Xihe (Chairman of the Committee)	2/2
Mr. Zhu Junsheng	1/2
Mr. Wang Qi (Resigned on 21 May 2008)	1/2
Mr. Zhang Wei (appointed as a member of the audit committee on 21 May 2008)	1/2

The annual report for the year ended 31 December 2008 of the Group had been reviewed by the audit committee.

REMUNERATION OF AUDITOR

For the year ended 31 December 2008, the Group paid approximately RMB4,720,000 to our auditor for the audit services. There was no other non-audit service fees paid to the auditor during the year.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTS

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

Reporting responsibility statement with respect to the financial reports of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 41 to 42.

INTERNAL CONTROL

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

For the year 2008, the Company has conducted comprehensive internal control over the Group, including:

(1) *Environment of Control*

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

(2) *Risk Assessment*

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

(3) *Control Activities*

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

(4) *Financial Management Mechanism*

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

(5) *Compliance Control*

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

In 2008, the Board have reviewed the internal control system of the Group based on the reports from the management and internal audit. Such review covered all critical aspects of the control, including financial control, operational control, compliance control and risk management functions. The Board confirmed that existing internal control system was sufficient and efficient during the year under review and till the publishing date of this annual report and accounts.

Deloitte.
德勤

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

We have audited the consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 43 to 103, which comprise the consolidated balance sheet as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year ended 31 December 2008, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2008 and of the profit and cash flows of the Group for the year then ended in accordance with International Financial Reporting Standards, and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 April 2009

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 December 2008

	NOTES	2008 RMB'000	2007 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
NET CURRENT ASSETS		**1,466,402**	1,442,414
TOTAL ASSETS LESS CURRENT LIABILITIES		**5,083,102**	3,193,131

	NOTES	2008 RMB'000	2007 RMB'000
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

The consolidated financial statements on pages 43 to 103 were approved and authorised for issue by the Board of Directors on 17 April 2009 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

Consolidated Statement of Changes in Equity

For the year ended 31 Decemeber 2008

	Attributable to equity holders of the parent											
	Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000 (note a)	Capital reserve RMB'000 (note b)	Statutory surplus reserve RMB'000 (note c)	Other reserve RMB'000 (note d)	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 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	—	—	—	—	—	—	—	—	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)
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 for the year	—	—	—	—	—	—	—	—	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 RMB'000	2007 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

Consolidated Cash Flow Statement

For the year ended 31 December 2008

	2008 RMB'000	2007 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

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.

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

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

IFRSs (Amendments)	Improvements to IFRSs May 2008[1]
IFRSs (Amendments)	Improvements to IFRSs April 2009[2]
IAS 1 (Revised)	Presentation of Financial Statements[3]
IAS 23 (Revised)	Borrowing Costs[3]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[4]
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[3]
IAS 39 (Amendment)	Eligible hedged items[4]
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[3]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[3]
IFRS 3 (Revised)	Business Combinations[4]
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments[3]
IFRS 8	Operating Segments[3]
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives[5]
IFRIC 13	Customer Loyalty Programmes[6]
IFRIC 15	Agreements for the Construction of Real Estate[3]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[7]
IFRIC 17	Distributions of Non-cash Assets to Owners[4]
IFRIC 18	Transfers of Assets from Customers[8]

1 Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2009, 1 July 2009 and 1 January 2010, as appropriate
3 Effective for annual periods beginning on or after 1 January 2009
4 Effective for annual periods beginning on or after 1 July 2009
5 Effective for annual periods ending on or after 30 June 2009
6 Effective for annual periods beginning on or after 1 July 2008
7 Effective for annual periods beginning on or after 1 October 2008
8 Effective for transfers on or after 1 July 2009

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

3. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income and expense that are taxable or deductible in other years and it further excludes 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets *(Continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (Continued)

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method

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

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

Financial liabilities at fair value through profit or loss

Financial liabilities at 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

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 RMB'000	2007 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	—

6. FINANCIAL INSTRUMENTS

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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(i) Currency risk *(Continued)*

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

Assets

	2008 **RMB'000**	2007 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 **RMB'000**	2007 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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(i) Currency risk *(Continued)*

Sensitivity analysis

The Group is mainly exposed to the fluctuation of 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 **RMB'000**	2007 RMB'000
HKD impact	**(37,529)**	—
USD impact	**32,426**	22,449
EUR impact	**(9,149)**	(1,342)
AUD impact	**—**	(49,448)

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk (Continued)

(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.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

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
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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Primary report segment – geographical segments *(Continued)*

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

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Primary report segment – geographical segments (Continued)

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 **RMB'000**	2007 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 RMB'000	2007 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 RMB'000	2007 RMB'000
PRC enterprise income tax		
– Current year	**76,241**	23,527
– Overprovision in respect of prior year	**(799)**	(783)
– Other tax benefit	**(17,841)**	(6,239)
	57,601	16,505
Deferred tax (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.

10. INCOME TAX EXPENSE *(Continued)*

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.

10. INCOME TAX EXPENSE *(Continued)*

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 **RMB'000**	2007 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' EMOLUMENTS

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

	2008 RMB'000	2007 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

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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 **RMB'000**	2007 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.

14. EARNINGS PER SHARE *(Continued)*

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 **RMB'000**	2007 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 RMB'000	Plant and machinery RMB'000	Fixture and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Software RMB'000	Total 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 RMB'000	2007 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 RMB'000	Technical know-how RMB'000	Total 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

17. INTANGIBLE ASSETS *(Continued)*

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 RMB'000	2007 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

18. INTERESTS IN ASSOCIATES *(Continued)*

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

	2008 **RMB'000**	2007 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 **RMB'000**	2007 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**

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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 2008	2007	Proportion of voting power held 2008	2007	Principal activity
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 RMB'000	2007 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 **RMB'000**	2007 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 **RMB'000**	2007 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

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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 **RMB'000**	2007 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 **RMB'000**	2007 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 **RMB'000**	2007 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

23. TRADE AND OTHER RECEIVABLES *(Continued)*

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** **RMB'000**	2007 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 **RMB'000**	2007 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 **RMB'000**	2007 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 RMB'000	2007 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 RMB'000	Inventories allowance RMB'000	Capitalisation of research and development RMB'000	Revaluation on investment RMB'000	Withholding tax RMB'000	Deferred income RMB'000	Total 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 RMB'000	2007 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.

35. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

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

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

(II) Related party balance

Details of the Group's outstanding balances with related parties are set out on the consolidated balance sheet 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 高衛忠 (former minority shareholder of Shenyang Sales Co.) for a total consideration of RMB1,250,000.

(IV) Compensation of key management personnel

Other than the emolument paid to the directors of the Company, who are also considered as the key management of the Group 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 RMB'000**	2007 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 RMB'000	**Deemed capital distribution reserve RMB'000**	**Accumulated profits (losses) RMB'000**	**Total 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 Direct %	Attributable equity interest held by the Company Indirect %	Principal activities
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
Nanjing High Speed & Accurate Gear (Shenyang) Sales Co., Ltd. [2] [5] 南京高精齒輪（瀋陽）銷售有限公司	PRC 17 January 2004	RMB1,800,000	—	100	Sales of gear, gear box and its fitting

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

Name of subsidiary	Place and date of incorporation/ establishment /operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Indirect %	Principal activities
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
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. [2][4] 北京中傳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

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

Name of subsidiary	Place and date of incorporation/ establishment /operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activities
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

Note:

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

(2) domestic enterprise established in the PRC

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

(4) these subsidiaries were 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.

Financial Summary

	Year ended 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Revenue	688,865	946,686	1,184,307	1,904,816	**3,439,220**
Profit for the year	78,752	99,337	90,228	306,444	**692,652**

	As at 31 December				
	2004	2005	2006	2007	**2008**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,158,903	1,442,149	2,222,583	4,785,580	**8,477,856**
Total liabilities	(889,914)	(1,258,158)	(1,691,355)	(1,677,713)	**(4,743,211)**
	268,989	183,991	531,228	3,107,867	**3,734,645**
Attributable to:					
Equity holder of the parent	181,861	133,768	526,999	3,104,545	**3,731,086**
Minority interests	87,128	50,223	4,229	3,322	**3,559**
	268,989	183,991	531,228	3,107,867	**3,734,645**

Notes:

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

2. The results for the year ended 31 December 2007 and 2008, and the assets and liabilities as at 31 December 2007 and 2008 have been extracted from the audited consolidated income statement and audited consolidated balance sheet as set out on pages 43 and 44, respectively, of the annual report.