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中國高速傳動設備集團有限公司*

China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock code: 658)

- (1) PROPOSED ISSUE OF RMB DENOMINATED USD SETTLED
ZERO COUPON CONVERTIBLE BONDS DUE 2011**
- (2) PROPOSED CASH SETTLED SHARE SWAP TRANSACTION**
- (3) RESUMPTION OF TRADING**

Sole Global Coordinator, Sole Bookrunner and Sole Swap Counterparty for Equity Swap

Morgan Stanley

MORGAN STANLEY & CO. INTERNATIONAL PLC

On 22 April 2008, after 4:30p.m., the Company entered into the Bonds Subscription Agreement with the Lead Manager, pursuant to which the Lead Manager agreed to subscribe and pay for the Bonds to be issued by the Company in an aggregate principal amount of RMB1,996.3 million (equivalent to approximately US\$286 million).

Based on an initial Conversion Price of HK\$17.78 and assuming full conversion of the Bonds at the initial Conversion Price, the Bonds will be convertible into 125,187,973 Shares, representing approximately 10.1% of the issued share capital of the Company as at the date of this announcement and approximately 9.1% of the issued share capital of the Company as enlarged by the full conversion of the Bonds. The Shares to be issued upon conversion of the Bonds will rank *pari passu* in all respects with the Shares then in issue on the relevant conversion date.

Completion of the Bonds Subscription Agreement is subject to the satisfaction and/or waiver of the conditions precedent therein. In addition, the Bonds Subscription Agreement may be terminated in certain circumstances. Please refer to the Section headed “Bonds Subscription Agreement” below for further information.

The Bonds have not been offered or sold and may not be offered or sold in Hong Kong to the public within the meaning of the Companies Ordinance.

The Bonds and the Conversion Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act.

An application will be made to the Singapore Stock Exchange for the listing of the Bonds. The Company will apply to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The gross proceeds from the Bonds Issue is approximately US\$286 million (equivalent to approximately HK\$2,226 million). The total expenses and commissions amount to approximately US\$5.5 million (equivalent to approximately HK\$42.85 million), of which the Company will receive net proceeds in the amount of US\$280 million (equivalent to approximately HK\$2,183 million) from the Bond Issue. Approximately 50% of the gross proceeds will be used to enter into the Equity Swap to facilitate hedging by investors in the Bonds and the balance will be used to fund capital expenditure and general working capital, including payments for imported equipment and components.

Concurrently with the execution of the Bonds Subscription Agreement, the Company entered into the Equity Swap with the Equity Swap Counterparty for Shares up to a value of HK\$1,113 million (equivalent to approximately US\$142.8 million). Under the Equity Swap, the Company receives a payment if the Final

Price is higher than the Initial Price and the Equity Swap Counterparty receives a payment if the Final Price is lower than the Initial Price. Both the Company and the Equity Swap Counterparty have the option to terminate the Equity Swap early upon the occurrence of any of the following events:

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

The Initial Price is HK\$13.6783 and the Final Price will be determined by reference to the arithmetic average of the volume weighted average price per Share on each Averaging Date in the relevant Averaging Period.

The Company is required to pay an initial exchange amount on 22 April 2008 to enter into the Equity Swap of HK\$1,113,012,941.55. Upon scheduled termination of the Equity Swap, assuming the full notional amount of the Equity Swap is still outstanding, the Equity Swap Counterparty will repay a final exchange amount equal to such initial exchange amount to the Company. Upon a partial optional early termination of the Equity Swap, a proportional amount of such initial exchange amount will be repaid to the Company in accordance with the Equity Swap.

The Company's purpose in entering into the Equity Swap is to provide the Company with a hedge against an increase in its Share price above the Initial Price. If the Final Price is higher than the Initial Price, the Equity Swap Counterparty will be required to pay the Company an amount determined by reference to the difference between the Final Price and the Initial Price. If the Final Price is lower than the Initial Price, the Company will be required to pay the Equity Swap Counterparty an amount determined by reference to that difference. In all circumstances the Equity Swap will be settled in cash on the third Currency Business Day after the determination of the Final Price and will have no impact on the issued share capital or the shareholdings of the shareholders of the Company. In addition, the Equity Swap allows the Lead Manager to provide hedging transactions to Bond investors (to which the Company is not a party) and such arrangements are expected to enhance Bond investors' appetite for the transaction and thus benefit the Company by helping with marketing and pricing of the Bonds. For every one Hong Kong dollar movement in the Company's share price, the unrealized gain / loss arising from the Equity Swap (gain if the Share

price goes up and loss if the Share price goes down) is HKD 81,370,707. The maximum potential financial downside risk to the Company of the Equity Swap is, in the event Company's Share price falls to zero, the total cost of the Equity Swap to the Company, i.e. approximately US\$142.8 million (equivalent to approximately HK\$1,113 million).

As the transactions contemplated under the Bonds Subscription Agreement and the Equity Swap may or may not complete, potential investors are advised to exercise caution when dealing in the Shares.

Trading in Shares was suspended at the request of the Company with effect from 9:30 a.m. on 23 April 2008 pending release of this announcement. An application has been made by the Company to the Hong Kong Stock Exchange for the resumption of trading in Shares to resume from 9:30 a.m. on 25 April 2008.

BONDS SUBSCRIPTION AGREEMENT

Date: 22 April 2008

Parties: The Company
The Lead Manager

Subject to the fulfillment of the conditions set out below under the section headed "Conditions Precedent of the Bonds Subscription Agreement", the Lead Manager has agreed to subscribe and pay for the Bonds with an aggregate principal amount of RMB1,996.3 million (equivalent to approximately US\$286 million).

Based on an initial Conversion Price of HK\$17.78 and assuming full conversion of the Bonds at the initial Conversion Price, the Bonds will be convertible into 125,187,973 Shares (subject to adjustment), representing approximately 10.1% of the issued share capital of the Company as at the date of this announcement and approximately 9.1% of the issued share capital of the Company as enlarged by the full conversion of the Bonds. The Shares to be issued upon conversion of the Bonds will rank *pari passu* in all respects with the Shares then in issue on the relevant conversion date.

The Bonds will be offered and sold outside the United States in reliance upon Regulation S of the Securities Act. None of the Bonds will be offered to the public in Hong Kong nor will they be placed to any connected persons (as defined in the Listing Rules) of the Company. The Lead Manager is not a connected person of the Company under the Listing Rules for the purposes of the Bonds Issue.

The Bonds will be offered and sold to not less than six persons whose ordinary business involves buying, selling or investing in securities outside the United States in reliance upon Regulation S of the Securities Act. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, the Lead Manager, its ultimate substantial beneficial owners and the placees (and their respective ultimate beneficial owners) are and will be independent of the Company and its connected persons.

In connection with the proposed offering, the Lead Manager and its affiliates may also, for their own account, enter into asset swaps, credit derivatives or other derivative transactions relating to the Bonds and/or the Conversion Shares at the same time as the offer and sale of the Bonds or in secondary market transactions (including synthetic short positions for investors of the Bonds).

Lock-up Undertaking

The Company has undertaken with the Lead Manager that it will not, and any persons acting on its behalf will not, for a period from the date of the Bonds Subscription Agreement until 90 days after the Closing Date, without the prior written consent of the Lead Manager, issue, offer, sell, grant, contract to sell, pledge or otherwise transfer or dispose of (or publicly announce any such issuance, offer, sale or disposal or otherwise make public an intention to do so), any Shares or interests or securities convertible or exchangeable into or exercisable for Shares or warrants, options or other rights to purchase Shares or any security, contract or financial product whose value is determined directly or indirectly by reference to the price of the Shares, including equity swaps, forward sales and options representing the right to receive any Shares, whether or not such contract is to be settled by delivery of Shares or such other securities, in cash or otherwise; except for (a) the Bonds and Shares issued pursuant to the conversion of the Bonds; (b) the issuance of any Shares under the Company's publicly disclosed share option schemes; or (c) the Equity Swap.

Fortune Apex Limited, which is currently owned by six executive Directors and other senior management personnel and holds approximately 26.79% of the total issued share capital of the Company, has executed a lock-up agreement whereby it undertakes, among other things, not to sell any Shares or enter into other transactions with a similar effect for a period from the date of the Bonds Subscription Agreement until 90 days after the Closing Date.

Conditions Precedent to the Bonds Subscription Agreement

Completion is subject to fulfillment of, among others, the following conditions:

- (1) the Lead Manager shall have been satisfied with the results of its due diligence investigations on the members of the Group for the purposes of the preparation of the offering circular, and the offering circular shall have been prepared in form and content satisfactory to the Lead Manager;
- (2) the execution and delivery (on or before the Closing Date) of the trust deed, the paying and conversion agency agreement and the Equity Swap, each in a form reasonably satisfactory to the Lead Manager, by the respective parties;
- (3) the Hong Kong Stock Exchange having agreed to list the Conversion Shares upon conversion of the Bonds and the Singapore Stock Exchange having agreed, subject to any conditions reasonably satisfactory to the Lead Manager, to list the Bonds (or, in each case, the Lead Manager being reasonably satisfied that such listing will be granted);
- (4) on the Publication Date and on the Closing Date, there having been delivered to the Lead Manager letters, in form and substance reasonably satisfactory to the Lead Manager, dated the Publication Date in the case of the first letter and dated the Closing Date in the case of the subsequent letters, and addressed to the Lead Manager from the certified public accountants to the Issuer;
- (5) on or prior to the Closing Date there shall have been delivered to the Lead Manager copies of all consents and approvals required in relation to the issue of the Bonds and the performance of its obligations under the trust deed, the agency agreement, the Equity Swap and the Bonds (including the consents and approvals required from all lenders);
- (6) up to and including the Closing Date, the Issuer having satisfied and has been in compliance with the requirements of the Hong Kong Stock Exchange;
- (7) on or before the Closing Date, there having been delivered to the Lead Manager certain legal opinions, in form and substance satisfactory to the Lead Manager, dated the Closing Date; and
- (8) up to and including the Closing Date, there shall not have occurred any adverse change or any development or event likely to involve a prospective change, in the financial condition, or the earnings, business or operations of the Issuer or of the Group, which, in the opinion of the Lead Manager, is material and adverse in the context of the offering and the Bonds.

The Lead Manager may, at its discretion and upon such terms as they think fit, waive compliance with the whole or any part of the conditions precedent (other than conditions (2) and (3)).

Termination

The Lead Manager may, by notice to the Company given at any time prior to payment of the net subscription monies for the Bonds to the Company, terminate the Bonds Subscription Agreement in any of the following circumstances:

- (1) if there shall have come to the notice of the Lead Manager any breach of, or any event rendering untrue or incorrect in any respect, any of the warranties and representations contained in the Bonds Subscription Agreement or any failure by the Company to perform any of its undertakings or agreements in the Bonds Subscription Agreement;
- (2) if any of the conditions precedent to the Bonds Subscription Agreement has not been satisfied or waived by the Lead Manager on or prior to the Closing Date;
- (3) if there shall have been in the Lead Manager's opinion, since the date of the Bonds Subscription Agreement, any change, or any development involving a prospective change, in national or international monetary, financial, political or economic conditions (including any disruption to trading generally, or trading in any securities of the Issuer on any stock exchange or in any over-the-counter market) or currency exchange rates or foreign exchange controls such as would in its view, be likely to prejudice materially the success of the offering and distribution of the Bonds or dealings in the Bonds in the secondary market;
- (4) if, in the opinion of the Lead Manager, there shall have occurred any of the following events: (i) a suspension or a material limitation in trading in securities generally on the New York Stock Exchange, the London Stock Exchange plc, the SGX-ST and/or the Hong Kong Stock Exchange; (ii) a suspension or a material limitation in trading in the Issuer's securities on the Hong Kong Stock Exchange; (iii) a general moratorium on commercial banking activities in the United States, Singapore, Hong Kong and/or the United Kingdom declared by the relevant authorities or a material disruption in commercial banking or securities settlement or clearance services in the United States, Hong Kong, Singapore or the United Kingdom; or (iv) a change or development involving a prospective change in taxation affecting the Issuer, the Bonds and the Shares to be issued upon conversion of the Bonds or the transfer thereof; or

- (5) if, in the opinion of the Lead Manager, there shall have occurred any event or series of events (including the occurrence of any local, national or international outbreak or escalation of disaster, hostility, insurrection, armed conflict, act of terrorism, act of God or epidemic) as would in their view be likely to prejudice materially the success of the offering and distribution of the Bonds or dealings in the Bonds in the secondary market.

Subject to the foregoing, completion of the subscription and issue of the Bonds will take place on the Closing Date.

The Directors consider that the terms and conditions of the Bonds Subscription Agreement and the Bonds are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole.

PRINCIPAL TERMS OF THE BONDS

The principal terms of the Bonds are summarized as follows:

Issuer :	The Company.
Principal amount of the Bonds :	The aggregate principal amount of the Bonds will be RMB1,996.3 million (equivalent to approximately US\$285 million).
Issue Price :	100% of the principal amount of the Bonds.
Interest :	The Bonds bear no interest.
Fee :	The Company will pay to the Lead Manager an aggregate combined management and underwriting commission and selling concession of 1.75% of the aggregate principal amount of the Bonds issued.

The aggregate management, underwriting commission and selling concession fees are determined by benchmarking fees charged in prior convertible bond deals of a similar nature by the Lead Manager. The Directors take the view that the aggregate management, underwriting commission and selling concession fees and their respective basis of determination are fair and reasonable.

Conversion Period : Bondholder(s) may exercise conversion rights at any time on or after the 30th day following the Closing Date up to the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on the 14th day prior to the Maturity Date or if such Bond shall have been called for redemption before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven days prior to the date fixed for redemption thereof.

Conversion Price : The initial Conversion Price is HK\$17.78 per Share, representing (i) a premium of approximately 30.0% over the volume weighted average price on 22 April 2008, which is the Trading Day on which the Bonds Subscription Agreement was signed, (ii) a premium of approximately 25.92% over the closing price of HK\$14.12 per Share as quoted on the Hong Kong Stock Exchange on 22 April 2008, (iii) a premium of approximately 44.46% over the average of the closing price of the Shares as quoted on the Hong Kong Stock Exchange for the five Trading Days up to and including 22 April 2008 of HK\$12.308 per Share and (iv) a premium of approximately 47.9% over the average closing price of the Shares as quoted on the Hong Kong Stock Exchange for the 10 Trading Days up to and including 22 April 2008 of HK\$12.02 per Share respectively.

The Conversion Price is subject to adjustment upon the occurrence of certain prescribed events namely, consolidation, subdivision or reclassification of shares, capitalization of profits or reserves, capital distributions, rights issues of Shares or options over Shares, rights issues of other securities, issues at less than current market price and a change of control. The Conversion Price may not be reduced so that, on conversion of the Bonds, Shares would be issued at a discount to their par value.

In the event of issues of Shares at less than current market price the Conversion Price shall be adjusted so that the new Conversion Price shall be calculated by multiplying the old price by $(A+B)/(A+C)$, where:

- A is the number of Shares in issue immediately before the issue of such additional Shares or the issue or grant of options, warrants or other rights to acquire any Shares;
- B is the number of Shares which the aggregate consideration (if any) receivable for the issue of such additional Shares would purchase at such current market price per Share; and
- C is the number of Shares to be issued pursuant to such issue of such Shares or, as the case may be, the maximum number of Shares which may be issued upon exercise of such options, warrants or rights calculated as at the date of issue or grant of such options, warrants or rights.

The Company will ensure that no issues or distributions are made by the Company which require an adjustment to the Conversion Price that would result in the total number of Conversion Shares to be issued under the Bonds exceeding the limit allowed under the general mandate granted pursuant to the resolutions in writing passed by the shareholders of the Company on 8 June 2007.

Ranking of Shares : The Shares to be issued upon conversion of the Bonds will rank *pari passu* in all respects with the Shares then in issue.

Maturity : Unless previously redeemed, converted or purchased and cancelled as provided in the terms and condition of the Bonds, the Company will redeem each Bond at an amount equal to the US Dollar equivalent of its principal amount in RMB multiplied by 109.3% on 14 May 2011.

Redemption for
taxation reasons :

The Bonds may be redeemed at the option of the Company in whole, but not in part, at any time, on giving not less than 30 nor more than 60 days prior notice to the Bondholders (which notice will be irrevocable) in accordance with terms and conditions of the Bonds at the US Dollar equivalent of their Early Redemption Amount, if (i) the Company satisfies the trustee immediately prior to the giving of such notice that the Company has or will become obliged to pay additional tax amounts as provided or referred to in terms and condition of the Bonds as a result of any change in, or amendment to, the laws or regulations of the Hong Kong or Cayman Islands or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after 22 April 2008, and (ii) such obligation cannot be avoided by the Company taking reasonable measures available to it, provided that no tax redemption notice will be given earlier than 90 days prior to the earliest date on which the Company would be obliged to pay such additional tax amounts were a payment in respect of the Bonds then due.

Mandatory conversion and redemption at option of the Company :

On giving not less than 30 or more than 60 days notice to the Bondholders and the trustee (which notice will be irrevocable), the Company:

- (i) may, have an option to mandatorily convert all or some only of the Bonds for the time being outstanding into Shares provided that the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) translated into RMB at the prevailing rate applicable to the relevant Trading Day, for 20 out of 30 consecutive Trading Days, the last day of such 30 Trading Day period falling within five Trading Days prior to the date upon which notice of such conversion is given, was at least 120% of the applicable Early Redemption Amount in effect on such Trading Day divided by the Conversion Ratio; or
- (ii) may, at any time, redeem the outstanding Bonds in whole, but not in part, at the US Dollar equivalent of the Early Redemption Amount, in the event that at least 90% of the Bonds have already been redeemed, purchased, converted or cancelled.

Redemption for delisting and change of control :

Following the occurrence of any of the following events

- (i) when the Shares cease to be listed or admitted to trading or suspended for a period equal to or exceeding 30 Trading Days on the Hong Kong Stock Exchange or, if applicable, an Alternative Stock Exchange; or
- (ii) when there is a Change of Control in the Company,

the holder of each Bond will have the right by notice given to the Company not later than 60 days following any such event, or if later, 60 days following the giving of notice by the Company to the Bondholders of such event to require the Company to redeem all or some of such holder's Bonds on the 14th day following the expiry of such 60-day period at the US Dollar equivalent of their Early Redemption Amount to the date of redemption.

Voting rights :

Before conversion of the Bonds, Bondholders will not have any right to attend or vote in any general meeting of the Company by virtue of their being Bondholders.

Change of Control :

If a Change of Control shall have occurred, the Conversion Price shall be adjusted in accordance with the following formula:

$$\text{NCP} = \frac{\text{OCP}}{1 + (\text{CP} \times c/t)}$$

Where:

NCP is the Conversion Price after such adjustment;

OCP is the Conversion Price before such adjustment;

CP is 30.0 per cent. expressed as a fraction;

c is the number of days from and including the first day of the Change of Control Conversion Period to but excluding the Maturity Date; and

t is the number of days from and including the Closing Date to but excluding the Maturity Date,

Listing :

An application will be made for the listing of the Bonds on the Singapore Stock Exchange.

An application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares to be issued upon conversion of the Bonds.

Denomination :	Registered form in RMB100,000 denominations and integral multiples thereof
Transferability :	The Bonds are freely transferable, subject to certain closed periods and regulations concerning the transfer of the Bonds.
Status :	The Bonds constitute direct, unsubordinated, unconditional and unsecured obligations of the Company and will at all times rank <i>pari passu</i> and without any preference or priority among themselves.

EFFECT ON THE SHARE CAPITAL

The following table summarizes the shareholding structure of the Company as at the date of this announcement and as a result of conversion of the Bonds:

Name of Shareholder	As at the date of this announcement		Assuming the Bonds are fully converted into Shares (subject to adjustment) at the initial Conversion Price of HK\$17.78 each at a fixed exchange rate of HK\$1 = RMB0.8968	
	No. of Shares	Approximately % of issued share capital of the Company	No. of Shares	Approximately % of issued share capital of the Company
Fortune Apex Limited	333,474,024	26.79%	333,474,024	24.34%
Luckever Holdings Limited	161,747,700	12.99%	161,747,700	11.80%
Wiaearn Holdings Limited	60,028,023	4.82%	60,028,023	4.38%
Other Existing Shareholders	689,750,253	55.4%	689,750,253	50.34%
Bondholders	0	0%	125,187,973	9.14%
Total:	<u>1,245,000,000</u>	<u>100%</u>	<u>1,370,187,973</u>	<u>100%</u>

As at the date of this announcement, the Company has no outstanding convertible securities or options which are convertible into Shares.

USE OF PROCEEDS

The gross proceeds from the Bonds Issue is US\$286 million (equivalent to approximately HK\$2,226 million). The total expenses and commissions amount to approximately US\$5.5 million (equivalent to approximately HK\$42.85 million), in which the Company will receive net proceeds in the amount of US\$280 million (equivalent to approximately HK\$2,183 million) from the Bonds Issue. The Group intends to apply the proceeds as follows:

Use of proceeds	Percentage of the net proceeds from the issue of the Bonds	Amount of the net proceeds from the issue of the Bonds
1. to enter into the Equity Swap	Approximately 51%	Approximately US\$142.8 million (equivalent to approximately HK\$1,113 million)
2. to further expand production capacity up to 2010 to meet growing demand for gearbox and transmission equipment in various industries, including wind power generation, marine vessels and rail transport, and to fund capital expenditures and general working capital, including payments for imported equipment and components	Approximately 49%	Approximately US\$137.28 million (equivalent to approximately HK\$1,070 million)
Total:	100%	US\$280 million (equivalent to approximately HK\$2,183 million)

EQUITY SWAP

Concurrently with the execution of the Bonds Subscription Agreement, the Company entered into the Equity Swap with the Equity Swap Counterparty for Shares up to a value of HK\$1,113 million (equivalent to approximately US\$142.8 million). The Equity Swap is inter-conditional with the issue of the Bonds, and will be effective on 14 May 2008, provided that the arrangement will be terminated with no payments due by either party in the event that the offering of the Bonds does not close by such date. Under the Equity Swap, the Company receives a payment if the Final Price is higher than the Initial Price and the Equity Swap Counterparty receives a payment if the Final Price is lower than the Initial Price. Both the Company and the Equity Swap Counterparty have the option to early terminate the Equity Swap upon the occurrence of any of the following events:

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

The Initial Price is HK\$13.6783 and the Final Price will be determined by reference to the arithmetic average of the volume weighted average price per Share on each Averaging Date in the relevant Averaging Period. The initial price of HK\$13.6783 is the volume weighted average price of the stock on April 22, 2008, the day when the Bond subscription agreement was executed. On the trading day when the Convertible Bond was launched (ie April 22, 2008), significant share price movements were observed. Hence it is believed that the initial price should be the volume weighted average price instead of the closing price of the stock.

The Company is required to pay an initial exchange amount on 22 April 2008 of HK\$1,113,012,941.55. The rationale for an upfront payment of an initial exchange amount by the Company to the Lead Manager is to mitigate Lead Manager's credit risk on the Company under the Equity Swap. Upon termination of the Equity Swap the final exchange amount is paid back to the Company by the Lead Manager as the Lead Manager no longer has any credit risk on the Company. Upon scheduled termination of the Equity Swap, assuming the full notional amount of the Equity Swap is still outstanding, the Equity Swap Counterparty will repay a final exchange amount equal to such initial exchange amount to the Company. Upon a partial optional early termination of the Equity Swap, a proportional amount of such initial exchange amount will be repaid to the Company in accordance with the Equity Swap.

The number of shares underlying the Equity Swap is 81,370,707, which is calculated based on the following formula:

$$\text{RMB1,996.3 million} \times 50\% \div 0.8968 \div 13.6783$$

Where:

RMB1,996.3 million is the Bond size;

50% is the % of the Bond proceeds used to enter into Equity Swap;

0.8968 is the HKD / RMB exchange rate; and

13.6783 is the volume weighted average price of the Company on 22 April 2008.

The Company's purpose in entering into the Equity Swap is to provide the Company with a hedge against an increase in its Share price above the Initial Price. If the Final Price is higher than the Initial Price, the Equity Swap Counterparty will be required to pay the Company an amount determined by reference to the difference between the Final Price and the Initial Price. If the Final Price is lower than the Initial Price, the Company will be required to pay the Equity Swap Counterparty an amount determined by reference to that difference. In all circumstances the Equity Swap will be settled in cash on the third Currency Business Day after the determination of the Final Price and will have no impact on the issued share capital or the shareholdings of the shareholders of the Company. In addition, the Equity Swap allows the Lead Manager to provide hedging transactions to Bond investors (to which the Company is not a party) and such arrangements are expected to enhance Bond investors' appetite for the transaction and thus benefit the Company by helping with marketing and pricing of the Bonds. For every one Hong Kong dollar movement in the Company's Share price, the unrealized gain / loss arising from the Equity Swap (gain if the Share price goes up and loss if the Share price goes down) is HKD 81,370,707. The maximum potential financial downside risk to the Company of the Equity Swap is, in the event Company's share price falls to zero, the total cost of the Equity Swap to the Company, i.e. approximately US\$142.8 million (equivalent to approximately HK\$1,113 million).

The Equity Swap is initially recognised at fair value at the date the derivative contract is entered into and is subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. On derecognition, the difference between the carrying amount and the consideration received or paid under the Equity Swap is recognised in profit and loss.

The fair value of the Equity Swap as a derivative contract will need to be determined on a yearly basis by an independent valuer. The independent valuer would normally determine the fair value based on, amongst other things, the factors below:

- (i) the Company's Share price at the time of valuation; and
- (ii) historical volatility of the Company's share price.

The Company believes that the fair value of the Equity Swap on 22 April 2008 was RMB 1,113 million (ie. the number of Shares underlying the Equity Swap multiplied by the volume weighted average price of the Company's Shares on 22 April 2008).

The principal terms of the Equity Swap are summarized as follows:

Trade Date :	22 April 2008, being the date on which the Equity Swap is agreed.
Effective Date :	the date of issuance of the Bonds.
Termination Date :	with respect to the relevant number of Shares subject to termination, the earlier of (i) the Scheduled Termination Date, and (ii) an Optional Early Termination Date.
Equity Amount Payer :	the Equity Swap Counterparty, being the party which will make a payment with respect to the price of the Share to the Equity Amount Receiver if the market price of the Shares increases.
Equity Amount Receiver :	the Company, being the party which will make a payment with respect to the price of the Share to the Equity Amount Payer if the market price of the Shares decreases.
Equity Notional Amount :	HK\$1,113,012,941.55, being the value of Shares for which Share price hedging is provided under the Equity Swap.
Settlement :	Payments will be made in HK dollars. No physical delivery of Shares will be required under the Equity Swap.
Initial Exchange Amount :	HK\$1,113,012,941.55

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

No fees are payable by the Company for the Equity Swap.

The Equity Swap Counterparty is not a connected person of the Company under the Listing Rules for the purposes of the Equity Swap transaction.

The Directors consider that the terms and conditions of the Equity Swap are fair and reasonable, on normal commercial terms and in the interests of the Company and its shareholders as a whole. The Directors are of the view that the Equity Swap will not have a material adverse effect on the financial position of the Company. Based on the Directors' expectations on the Company's future business prospects and the share price evolution, the Directors are of the view that the Equity Swap is fair and reasonable and that it is unlikely to have a material adverse financial impact on the Company.

REASONS FOR AND BENEFITS OF THE BONDS ISSUE AND THE EQUITY SWAP

The issue and conversion of the Bonds will enlarge and diversify the shareholder base of the Company whilst providing an opportunity to raise further capital for the purposes as set out in the paragraph headed "Use of Proceeds" above.

The Directors believe that a repurchase of Shares at current market prices would enhance the net value of the Company and its earnings per Share. However, any repurchase of Shares by the Company before and after entering into the Equity Swap and the issue of the Bonds may be subject to market conditions, the availability of its share repurchase mandate from shareholders and compliance with the Listing Rules and relevant law. The Company intends to repurchase Shares in the open market in the future. If share prices increase in the future, the Equity Swap Counterparty will be required to pay the Company an amount determined by

reference to the difference between the future market price and the Initial Price under the Equity Swap and vice versa. Therefore, if the Company repurchases Shares in the open market in the future, the Equity Swap will hedge it against future share price increases.

The Equity Swap and the intended future repurchases of Shares will reduce the potential net dilution upon future conversions of the Bonds. In addition, the difference between the Initial Price under the Equity Swap and the Conversion Price for the Bonds (which will be greater than the Initial Price under the Equity Swap) accrues as a gain to the Company. If the CB does not convert, the company will also make a gain if the future share price exceeds the initial price because the Company will receive cash equivalent to the future share price multiplied by the shares underlying the equity swap.

GENERAL MANDATE

By a written resolution of the shareholders of the Company passed on 8 June 2007, the Company granted a general mandate to the Directors to allot and issue up to 240,000,000 Shares. The Directors have not exercised the power to allot and issue any new Shares pursuant to the general mandate granted. As at the date of this announcement, the Company is entitled to issue up to 240,000,000 Shares pursuant to such general mandate. The Conversion Shares will be issued under such general mandate.

FUND RAISING IN THE PAST 12 MONTHS

The Company has not carried out any capital fund raising activities since the listing of its Shares on the Main Board of the Hong Kong Stock Exchange on 4 July 2007. The Company raised net proceeds of approximately HK\$2.4 billion from the issue of new shares upon the listing of the Company. The net proceeds were principally used in the following ways in accordance with the proposed uses as set out in the prospectus of the Company on 20 June 2007:

- approximately RMB746,757,000 was used for research, development and further production capacity expansion in relation to wind gear transmission equipment;
- approximately RMB22,571,000 was used for research, development and production of marine gear transmission equipment and other marine vessel related products;

- approximately RMB8,000,000 was used for research, development and production of mechanical transmission equipment for light rails and high-speed rails;
- approximately RMB470,000,000 was used as general working capital; and

The remaining net proceeds have been deposited with banks in Hong Kong and the PRC and will be used for the intended uses as set out in the prospectus of the Company dated 20 June 2007.

GENERAL

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

Application will be made to the Singapore Stock Exchange for the listing of the Bonds. The Shares are listed on the Hong Kong Stock Exchange and application will be made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Conversion Shares.

The Bonds and the Conversion Shares have not been and will not be registered under the Securities Act and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered and sold outside the United States in reliance on Regulation S under the Securities Act.

None of the Bonds will be offered to the public in Hong Kong.

The Company will promptly notify the Hong Kong Stock Exchange upon becoming aware of any dealing in the Bonds by any connected person (as defined in the Listing Rules) of the Company.

The Directors are of the view that the disclosure regarding the Bonds and the Equity Swap complies with the requirements of Rule 2.13 of the Listing Rules.

Trading in the Shares was suspended at the request of the Company with effect from 9:30 a.m. on 23 April 2008 pending release of this announcement. An application has been made by the Company to the Hong Kong Stock Exchange for the resumption of trading in Shares to resume from 9:30 a.m. on 25 April 2008.

DEFINITIONS

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

Alternative Stock Exchange :	at any time, in the case of the Shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the shares are then listed or quoted or dealt in.
Averaging Date :	<p>in respect of scheduled termination or Optional Early Termination of the entire outstanding notional amount of this Transaction, 30 consecutive scheduled Trading Days, starting on and including the Scheduled Termination Date or the relevant Optional Early Termination Date, subject to the averaging date disruption as referred to in the Equity Swap</p> <p>in respect of an Optional Early Termination of less than the entire outstanding notional amount of this Transaction, a number of scheduled Trading Days equal to the relevant Number of Averaging Dates, starting on and including the relevant Optional Early Termination Date, as selected by the Calculation Agent in its reasonable discretion.</p>
Averaging Period :	the period commencing on the relevant First Averaging Date and ending on the relevant Valuation Date (inclusive).
Board :	board of directors of the Company.
Bond Conditions :	the terms and conditions of the Bonds.
Bondholder(s) :	holder(s) of the Bonds from time to time
Bonds :	the RMB denominated USD Settled Zero Coupon Convertible Bonds due 2011 in an aggregate principal amount of RMB1,996.3 million (equivalent to approximately US\$285 million)
Bonds Issue :	issue of the Bonds

Bonds Subscription Agreement :	the subscription agreement between the Company and the Lead Manager dated 22 April 2008 in respect of the subscription of the Bonds
Calculation Agent :	Morgan Stanley & Co. International plc
Change of Control :	any of the following events occurs: <ul style="list-style-type: none"> (i) any person or persons (which for this purpose does not include Fortune Apex Limited and Luckever Holdings Limited) acting together acquires Control of the Issuer if such person or persons does not or do not have, and would not be deemed to have, Control of the Issuer on the Closing Date; (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the Issuer's assets to any other person, unless the consolidation, merger, sale or transfer will not result in the other person or persons acquiring Control over the Issuer or the successor entity; or (iii) one or more persons (other than any person referred to in sub-paragraph (i) above) acquires the legal or beneficial ownership of all or substantially all of the Issuer's issued share capital.
Change of Control Conversion Period :	a period of 30 days following a Change of Control, or 30 days following the date on which a notice of the Change of Control is given to Bondholders, whichever is later
Closing Date :	14 May 2008
Company :	China High Speed Transmission Equipment Group Co., Ltd., an exempted company incorporated in the Cayman Islands with limited liabilities whose shares are listed on the Hong Kong Stock Exchange

Control :	the acquisition or control of more than 50 per cent. of the voting rights of the issued share capital of the Issuer or the right to appoint and/or remove all or the majority of the members of the Issuer's board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;
Conversion Price :	the price at which Shares will be issued upon conversion which will initially be HK\$17.78 per Share with a fixed exchange rate of HK\$1.00 to RMB0.8968 and will be subject to adjustment in the manner provided in the terms and conditions of the Bonds
Conversion Ratio :	the RMB principal amount of each Bond translated into Hong Kong dollars at the fixed rate of exchange of HK\$1.00 to RMB0.8968 divided by the applicable Conversion Price
Conversion Shares :	Shares to be allotted and issued by the Company upon conversion of the Bonds
Currency Business Days :	any day on which commercial banks are open for business (including dealings in foreign exchange and foreign currency deposits) in the principal financial centre for the relevant currency
Directors :	directors of the Company
Early Redemption Amount :	a gross yield of 3.00 per cent. per annum, calculated on a semi-annual basis.
Equity Swap :	a confirmation between the Company and the Equity Swap Counterparty dated 22 April 2008 and an ISDA master agreement (multicurrency cross-border) to be signed between the Company and the Equity Swap Counterparty in connection with the cash-settled equity swap transaction, the particulars of which are set out in the paragraph headed "Equity Swap" in this announcement
Equity Swap Counterparty :	Morgan Stanley & Co. International plc

Final Price :	the arithmetic average of the Relevant Prices on each Averaging Date in the relevant Averaging Period, subject to the averaging date disruption as referred to in the Equity Swap, as adjusted by the Calculation Agent in a commercially reasonable matter to account for any costs, fees, taxes, duties or similar charges as applicable, pursuant to the terms of the Equity Swap.
First Averaging Date :	the Scheduled Termination Date, or in respect of any Optional Early Termination, the relevant Optional Early Termination Date.
Group :	the Company and its subsidiaries
Hong Kong :	the Hong Kong Special Administration Region of the PRC
HK\$:	Hong Kong dollars, the lawful currency of Hong Kong special Administrative Region
Hong Kong Stock Exchange :	The Stock Exchange of Hong Kong Limited
Initial Price :	HK\$13.6783
Issuer :	the Company
Lead Manager :	Morgan Stanley & Co. International plc
Listing Rules :	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Maturity Date :	14 May 2011
Number of Averaging Dates :	a number of days, not exceeding 30 (and which for the avoidance of doubt, need not be consecutive) determined by the Calculation Agent in its reasonable discretion, with such determination based on, among other factors, the number of Shares to be valued in respect of the relevant Optional Early Termination Date, and the volume, historical trading patterns and price of the Shares

Optional Early Termination :	early termination in whole or in part of the transaction contemplated under the Equity Swap pursuant to the terms thereof
Optional Early Termination Date :	the date on which any Optional Early Termination is to be effected, subject to the terms of the Equity Swap
PRC :	the Peoples Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region and Taiwan)
Publication Date :	the date of the offering circular which shall not be later than three business days prior to the Closing Date or such other date as may be agreed between the Company and the Lead Manager
Regulation S :	Regulation S under the Securities Act
Relevant Price :	for any Averaging Date, (i) the volume weighted average price per Share for the regular trading session (including any extensions thereof) of the Hong Kong Stock Exchange on such Averaging Date, as published by Bloomberg (or any successor thereto), or (ii) if such price is not so reported on such Averaging Date for any reason, as reasonably determined by the Calculation Agent.
RMB :	Renminbi, the lawful currency of PRC
Scheduled Termination Date :	14 May 2011
Securities Act :	the US Securities Act of 1933, as amended
Singapore Stock Exchange :	the Singapore Exchange Securities Trading Limited
Shares :	ordinary shares of US\$0.01 each in the issued share capital of the Company

Trading Day :	a day when the Hong Kong Stock Exchange or, as the case may be an Alternative Stock Exchange is open for dealing business, provided that if no closing price of the Shares is reported for one or more consecutive dealing days, such day or days will be disregarded in any relevant calculation and will be deemed not to have been dealing days when ascertaining any period of dealing days
United States :	the United States of America
US\$ or USD or US Dollar :	United States dollars, the lawful currency of the United States
Valuation Date :	the final Averaging Date of the relevant Averaging Period
% :	per cent.

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

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

Hong Kong, 24 April 2008

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

* *For identification purposes only*