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

2009

* 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

Room 1302
13th Floor
Top Glory Tower
No.262 Gloucester Road
Causeway Bay
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
17M 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

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong
Mr. Lui Wing Hong, Edward

CORPORATE INFORMATION

AUDITORS

Deloitte Touche Tohmatsu

HONG KONG LEGAL ADVISERS

Charltons

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 2009 was approximately RMB5,647,045,000, representing an increase of 64.2% as compared with last year.

Profit attributable to owners of the Company as shown in the accounts for the year 2009 was approximately RMB966,377,000, representing an increase of 39.6% as compared with last year.

Excluding the changes in fair values of convertible bonds and gain on equity swap and the related transaction cost, adjusted profit attributable to owners of the Company for 2009 was approximately RMB1,106,155,000, representing an increase of 129.3% as compared with last year.

Basic and diluted earnings per share amounted to RMB0.78 and RMB0.77 respectively.

The Board recommended payment of a final dividend of HK30 cents per share for the year ended 31 December 2009.

CHAIRMAN'S STATEMENT

I am pleased to present the 2009 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the "Company"). For the year ended 31 December 2009 (the "Period under Review"), the Company and its subsidiaries (collectively referred to as the "Group") recorded sales revenue of approximately RMB5,647,045,000, representing an increase of approximately 64.2% over 2008. Profit attributable to owners of the Company was approximately 966,377,000, representing an increase of 39.6% over last year, or an increase of 129.3% over last year if excluding the changes in fair values of convertible bonds and gain on equity swap and the related transaction cost. The gross profit margin for the year was 33.0%. Despite the volatile and challenging global market environment, the Group managed to achieve remarkable results in 2009 due to the hard work and dedication of our staff and the support 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.

Although the operating environment remained uncertain last year, the Group was able to maintain stable growth by leveraging on our diversified business development, prudent business strategies, research and development efforts as well as flexible marketing strategies. The global economy began to turnaround at the beginning of 2009. The Group grasped the market opportunity to consolidate its leading position as the largest supplier of wind power gear boxes in the PRC.

During the Period under Review, products sales of each principal business segment of the Group were remarkable:

Sales of wind gear transmission equipment, the Group's major product, grew by 111.3% to RMB3,805,074,000 during the Period under Review. The production capacity of wind power gear equipment also expanded to over the target of 6,000 MW. The PRC government has adopted a series of proactive policies and measures to encourage the use of renewable and clean energy for power generation. Recently, the National Development and Reform Commission proposed to increase the planned capacity of wind power generator from 100,000 MW to 150,000 MW by 2020. According to the resolutions of the Standing Committee of the State Council of China tabled at the Copenhagen Climate Summit, China has decided to reduce emission to GDP ratio by 40% to 45% by 2020 from that of 2005. The use of green power is also encouraged and supported by many countries. Demand for wind power gear equipment kept increasing.

Driven by the government's national railway construction program, the railway equipment market will grow at a fast pace. The light rail and high-speed train transmission equipment segment will be the major growth point of the Company. Owing to its efforts in research and development of light rail and high-speed train gear equipment, the Group successfully launched a number of innovative products which obtained a number of patents and certifications. During the Period under Review, the light rail and high-speed train transmission equipment segment began to contribute profit.

With regard to the marine gear transmission equipment segment, in response to the market changes resulting from the global economic crisis, the Group further developed the PRC market so as to offset the decline in demand from Europe due to economic downturn. During the Period under Review, sales revenue of this segment decreased by 47.3% to RMB209,579,000. Traditional transmission products segment maintained its growth with its sales revenue increased by 30.4% to RMB1,618,113,000.

CHAIRMAN'S STATEMENT

During the Period under Review, the Group made breakthroughs in technology research and development. As at the end of 2009, the Group has made applications for 133 patents and 97 patents were granted. Production and sale of 1.5MW and 2.5MW wind transmission equipment increased significantly. Significant progress was made in the research and development of large type 3MW wind transmission equipment, which will further propel the Group's growth. In longer terms, the Group will focus on the development of high-speed and light rail train transmission equipment to capitalise on the huge opportunity in railway industry. The Group will also put efforts in the research and development of electrical transmission equipment and the application of electromechanical integration so as to enhance the value of the Company.

During the Period under Review, the Group penetrated further into the domestic market when the economy of the PRC recovered. Domestic sales increased by 79.1% to RMB4,808,948,000 over last year. Export sales maintained a steady growth and increased by 11.1% to RMB838,097,000 over last year. The Group will flexibly reallocate its sales and marketing resources in accordance with the demands from domestic and overseas markets so as to maximise the revenue of the Company. Currently, the export sales of the Group mainly derived from wind gear transmission equipment and marine gear transmission equipment. Our international customers include GE Energy, Vestas, RE Power, Nordex and Fuji Heavy, which is a proof that the quality of our products has attained an international level and won recognition from various customers. During the Period under Review, overseas sales revenue accounted for approximately 14.8% of the total sales. Measures taken by the PRC government to drive domestic demand also led to a significant increase in the domestic demand for wind gears. In 2009, the Company began to provide products to Sinovel, a major domestic wind turbine manufacturer, and Vestas, a major foreign wind turbine manufacturer.

The exploitation of renewable energy will continue to be the global focus as awareness of environmental protection and concerns for the natural environment keep increasing. Accordingly, the central government has launched a series of policies to support the development of alternative energy industries, such as the guarantee of connecting wind power generation to national power grids and proposed development of intelligent power grids. It is expected that the PRC government will introduce more supportive measures according to its commitments made at the Copenhagen Climate Summit. It is believed that the wind power gear transmission equipment industry in the PRC will have very strong growth. Furthermore, the PRC government has decided to construct a high-speed passenger railway network to connect all major cities pursuant to the Eleventh Five-year Plan. The railway related equipment market is expected to grow at a rapid pace until 2013 and onwards when more railway facilities are put into operation, which is beneficial to the development of the light rail and high-speed rail gear equipment business of the Group.

CHAIRMAN'S STATEMENT

Under this favourable environment, the Group plans to expand its production capacity in wind power transmission equipment to approximately 9,000MW by 2010 by capitalising on the opportunities arising from economic recovery. The Group will endeavour to optimise its 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 as the industry pioneer, so as to become a leading international transmission equipment supplier and bring maximum returns for its shareholders.

Hu Yueming
Chairman
16 April 2010

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. For the year ended 31 December 2009, the Group recorded total sales revenue of approximately RMB5,647,045,000, representing a substantial increase of 64.2% over 2008. The gross profit margin recorded for the year was approximately 33.0%. Profit attributable to owners of the Company was approximately RMB966,377,000, representing a significant increase of 39.6% over 2008. If the effect of the fair value change of convertible bonds and gain on equity swap and the related transaction cost had been excluded, the adjusted profit attributable to owners of the Company in 2009 would have been approximately RMB1,106,155,000, representing an increase of 129.3% over 2008.

Principal business review

1. 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 by approximately 111.3% to approximately RMB3,805,074,000 (2008: RMB1,800,766,000) as compared with last year. 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. The increase was also attributable to the encouragement for the use of clean energy, including wind power, by the PRC government in support of the policy for the reduction in carbon dioxide emission.

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 1.5MW and 2MW wind gear transmission equipment have been provided to domestic and overseas customers in bulk. The product technology has reached an international advanced technical level and is well recognised by our customers. In addition, the Group has achieved significant progress in the research and development of 3MW 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 manufacture in the PRC, as well as renowned international wind turbine manufacturers such as GE Energy, Vestas, REPower, Nordex, Fuji Heavy and etc. With the Group's increasingly global operation, the Group will attract more international wind turbine manufacturers.

MANAGEMENT DISCUSSION AND ANALYSIS

2. *Marine gear transmission equipment*

Actively expand the domestic market

Marine gear transmission equipment is one of the Company's new products in recent years. Sales of marine gear transmission equipment were generated from overseas and domestic orders. In the face of the global financial crisis, the Company is actively expanding its presence in the domestic market and enhancing diversification of marine gear transmission equipment products.

During the period under review, turnover of marine gear transmission equipment dropped by approximately 47.3% to approximately RMB209,579,000 (2008: RMB397,954,000) due to the impact of the financial crisis on the European economies.

3. *Transmission equipment for high-speed locomotives and urban light rails*

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

The use of high-speed locomotives and urban light rail locomotives as environmental-friendly transportation vehicles has become a major global trend. It is believed that the industry has promising potential. The development of intercity transport in the PRC, one of the most heavily populated countries in the world, will provide a tremendous market for high-speed locomotives and urban light rail transportation operations. The high-speed railway transportation network in Europe is expected to double 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 rail, 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 used in Beijing, Shanghai and Nanjing for field tests since the end of 2008. The Group will further expand both domestic and overseas markets, making this a new source of growth for the Group. During the period under review, such business has already started to generate sales revenue of approximately RMB14,279,000 for the Group.

4. Traditional transmission products

Sales of new products remain strong

The Group's traditional gear transmission equipment products are mainly provided for customers from industries including metallurgy, construction materials, traffic, transportation, petrochemicals, aerospace and mining. During the period under review, sales revenue of high-speed heavy-load gear transmission equipment, gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills increased by 0.5%, 72.3% and 38.2% to approximately RMB29,049,000 (2008: RMB28,892,000), RMB794,200,000 (2008: RMB461,011,000) and RMB467,721,000 (2008: RMB338,521,000) respectively. Sales revenue from general purpose gear transmission equipment and other mechanical transmission equipment decreased by 14.0% and 25.1% to approximately RMB143,271,000 (2008: RMB166,600,000) and RMB183,872,000 (2008: RMB245,476,000) respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Under the macro-economic control imposed by the PRC government, the Group's gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling maintained steady sales growth, primarily attributable to the introduction of new products. The Group has adopted an approach of product development focusing on energy-saving and environmental protection. Vertical roller press grinding mills recently developed by the Group can save nearly 30% of the energy used by traditional transmission products and are well received in the market. In response to product upgrades 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 are 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. During the period under review, overseas sales was approximately RMB838,097,000 (2008: RMB754,280,000), accounting for 14.8% of total sales (2008: 21.9%) and representing a decrease of 7.1% of total sales over last year. At present, the overseas customer base of the Company extends to the U.S., India, Japan and Europe. In view of the economic recession in Europe and the U.S. since the end of 2009, the Company currently allocates more resources to the local market in response to the strong demand of the Company's products in China.

PATENTED PROJECTS

The business of the Group has 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 its advanced technology and premium quality, the Company has obtained 92 national, provincial and municipal technology advancement awards. 22 of its products have been recognised as high-technology products and the application of 133 patents have been completed, of which 97 patents are authorised patents. The Company was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a CIMS Application Model Enterprise by the Ministry of Science and Technology of the PRC. Currently, the Company has passed quality and 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.

DIVIDENDS

The Board recommended the payment of a final dividend of HK30 cents per share in respect of the year ended 31 December 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

In the year of 2009, 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 64.2% to approximately RMB5,647,045,000.

	Revenue Year ended 31 December	
	2009 *RMB'000*	2008 *RMB'000*
High-speed Heavy-load Gear Transmission Equipment	**29,049**	28,892
Gear Transmission Equipment for Construction Materials	**794,200**	461,011
General Purpose Gear Transmission Equipment	**143,271**	166,600
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	**467,721**	338,521
Wind Gear Transmission Equipment	**3,805,074**	1,800,766
Marine Gear Transmission Equipment	**209,579**	397,954
Transmission Equipment for High-speed Locomotives and Urban Light Rails	**14,279**	—
Others	**183,872**	245,476
	5,647,045	3,439,220

REVENUE

The Group's revenue during the period under review was approximately RMB5,647,045,000, representing an increase of 64.2% as compared with last year. This 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 111.3% in sales revenue of wind gear transmission equipment from approximately RMB1,800,766,000 for the year ended 31 December 2008 to approximately RMB3,805,074,000 for the year ended 31 December 2009 and increases of 72.3% and 38.2% in traditional transmission products including gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills from approximately RMB461,011,000 and RMB338,521,000 for the year ended 31 December 2008 to approximately RMB794,200,000 and RMB467,721,000 for the year ended 31 December 2009 respectively.

GROSS PROFIT MARGIN AND GROSS PROFIT

The Group's consolidated gross profit margin was approximately 33.0% during the year, representing an increase of 4.2% as compared with last year. The increase was mainly a result of lower material costs and increased production efficiency. Consolidated gross profit as at 31 December 2009 reached approximately RMB1,861,241,000 (2008: RMB992,160,000), representing an increase of 87.6% as compared with last year. This was mainly attributable to the increased sales of wind gear transmission equipment. The gross profit of wind gear transmission equipment increased from approximately RMB499,247,000 for the year ended 31 December 2008 to approximately RMB1,215,254,000 for the year ended 31 December 2009, representing an increase of 143.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOME, OTHER GAINS AND LOSS

The total amount of other income of the Group for the year ended 31 December 2009 was approximately RMB105,369,000 (2008: RMB64,814,000), representing an increase of 62.6% as compared with last year. Other income is mainly comprised of bank interest income, government grants and sales of scrap materials.

During the year, other gain and loss recorded a net loss of approximately RMB139,778,000 (2008: a net gain of RMB245,039,000), which mainly comprised fair value loss of convertible bonds and gain on equity swap.

DISTRIBUTION AND SELLING COSTS

The distribution and selling costs of the Group for the year ended 31 December 2009 were approximately RMB139,174,000 (2008: RMB106,939,000), representing an increase of 30.1% over 2008. The increase was mainly attributable to increased sales. However, the percentage of distribution and selling costs to sales revenue for the year ended 31 December 2009 was 2.5% (2008: 3.1%), representing a decrease of 0.6% to sales revenue over 2008. This was mainly attributable to offsetting of some sales expense such as marketing expenses and salaries of sales personnel by strong market demand for wind gear transmission equipment.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased from approximately RMB281,503,000 in 2008 to approximately RMB318,036,000 in 2009, mainly due to the increase in number of staff and staff costs, and depreciation charges arising from increased investment in fixed assets by the Company. The percentage of administrative expenses to sales revenue was 5.6%, representing a decrease of 2.6% to sales revenue over the corresponding period last year.

OTHER EXPENSES

Other expenses of the Group during the period under review were approximately RMB48,939,000 which mainly comprised a net loss on foreign exchange of approximately RMB30,587,000. Other expenses of the Group in 2008 were approximately RMB74,784,000, which mainly comprised a net loss on foreign exchange of RMB37,012,000 and expenses on the issuance of convertible bonds of RMB34,935,000.

FINANCE COSTS

In 2009, the finance costs of the Group was approximately RMB99,832,000 (2008: RMB28,693,000), an increase of 2.5 times as compared with last year, which was mainly due to the increase in bank loans.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2009, the equity attributable to owners of the Company amounted approximately to RMB4,420,937,000 (2008: RMB3,731,086,000). The Group had total assets of approximately RMB10,234,919,000 (2008: RMB8,477,856,000), an increase of RMB1,757,063,000, or 20.7%, as compared with that at the beginning of the year. Total current assets of the Group were approximately RMB5,037,358,000 (2008: RMB4,861,156,000), representing an increase of 3.6% as compared with that at the beginning of the year and accounting for 49.2% of total assets (2008: 57.3%). Total non-current assets were approximately RMB5,197,561,000 (2008: RMB3,616,700,000), representing an increase of 43.7% as compared with that at the beginning of the year and accounting for 50.8% of the total assets (2008: 42.7%).

As at 31 December 2009, total liabilities of the Group were approximately RMB5,784,567,000 (2008: RMB4,743,211,000), which represented an increase of 22.0% as compared with that at the beginning of the year. Total current liabilities were approximately RMB3,288,119,000 (2008: RMB3,394,754,000), representing a decrease of 3.1% as compared with that at the beginning of the year whereas total non-current liabilities were approximately RMB2,496,448,000 (2008: RMB1,348,457,000), representing an increase of approximately 85.1% as compared with that at the beginning of the year.

As at 31 December 2009, the net current asset of the Group was approximately RMB1,749,239,000 (2008: RMB1,466,402,000), representing an increase of RMB282,837,000, or 19.3%, as compared with that at the beginning of the year.

As at 31 December 2009, total cash and bank balances of the Group were approximately RMB1,074,486,000 (2008: RMB2,165,905,000), that includes pledged bank deposits of RMB451,389,000 (2008: RMB502,696,000), and restricted cash of RMB151,904,000 (2008: RMB981,566,000). These restricted cash represents the remaining balance of restricted deposits payable by the Group in respect of the Equity Swap entered into with Morgan Stanley & Co. International plc on 22 April 2008.

As at 31 December 2009, the Group had total bank loans of approximately RMB2,568,314,000 (2008: RMB1,360,512,000), of which short-term bank loans were RMB1,556,273,000 (2008: RMB1,292,166,000), accounting for approximately 60.6% of the total bank loans (2008: 95.0%). 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 3.51% to 7.97% (2008: 4.86% to 6.12%).

Taking into account of the internal financial resources of and the banking facilities available to the Group, and issued RMB denominated USD settled zero coupon convertible bonds of RMB1,996,300,000 in May 2008, the directors of the Company believe that the Group will have a sound and strong financial position as well as sufficient resources to meet 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 55.9% in 2008 to 56.5% in 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL STRUTURE

Convertible Bonds

On 14 May 2008, the Company issued 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.

(iii) Size and 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) According to the announcement dated 18 June 2009, the conversion price was adjusted from HK$17.78 per share to HK$17.2886 per share from 19 June 2009 as a result of the payment of final dividends for the years ended 31 December 2007 and 31 December 2008.

(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 for entering into an equity swap contract, and the remaining proceeds of 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 demand 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).

In the fourth quarter of 2008, 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). During the year, the Company did not repurchase and cancel any other convertible bonds.

In the third quarter of 2009, the convertible bonds in a total nominal value of RMB1,000,000 were converted into 64,497 shares.

As at 31 December 2009, the outstanding principle of the convertible bonds amounted to RMB1,147,100,000 (2008: RMB1,148,100,000). Based on the adjusted conversion price of HK$17.2886 per share and assuming full conversion of the bonds at the adjusted conversion price, the number of conversion shares falling to be issued in connection with the outstanding bonds will be approximately 73,985,370 ordinary shares, representing approximately 5.9% of the existing issued share capital of the Company and approximately 5.6% of the issued share capital of the Company as enlarged by the full conversion of the bonds.

MANAGEMENT DISCUSSION AND ANALYSIS

For the year ended 31 December 2009, loss on fair value changes of such convertible bonds was approximately RMB438,382,000 (2008: gain on fair value changes of convertible bonds was RMB522,897,000).

Equity Swap

Concurrently with the above 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 amounting to 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.

On 4 May 2009, the Company and the Equity Swap Counterparty had undertaken the partial termination in respect of 68,758,000 shares under the Equity Swap at an average final price of HK$12.8495 per share (net of early termination fee and other costs and expenses). Further details were set out in the Company's announcement dated 5 May 2009.

On 6 November 2009, the Company entered into an amended and restated Equity Swap with the Equity Swap Counterparty. Under the amended and restated Equity Swap, the Company may elect for physical delivery of shares ("the Share Delivery Option") as an alternative to cash settlement. In the event that the Company elects to exercise the Share Delivery Option to settle a scheduled termination of the remaining Equity Swap in whole, the Equity Swap Counterparty will deliver to the Company the number of ordinary shares in the issued share capital of the Company specified in the Equity Swap as amended from time to time (i.e. 12,612,707 ordinary shares), whereupon the Equity Swap Counterparty will have no obligation to repay the remaining proportional amount of the Initial Exchange Amount (i.e. HK$172,520,390.16) to the Company. In the event that the Company elects to exercise the Share Delivery Option to settle a partial optional early termination of the Equity Swap, the Equity Swap Counterparty will deliver to the Company the terminated number of shares and the Equity Swap Counterparty's obligation to repay to the Company aproportional amount of the initial exchange amount shall no longer apply. Where the Company has elected for the Share Delivery Option to apply, the shares to be delivered by the Equity Swap Counterparty will be promptly cancelled by the Company. Exercising the Share Delivery Option on one or more occasions will constitute an off-market repurchase of up to a total of 12,612,707 ordinary shares (representing approximately 1.0% of the existing issued share capital of the Company) under the Hong Kong Code on Share Repurchases. The potential off-market repurchase of shares was approved by the general meeting of shareholders by way of a special resolution on 15 January 2010. Further details of the amended and restated Equity Swap were set out in the Company's announcements dated 6 November 2009 and 15 January 2010 and circular dated 24 December 2009.

As at the year ended 31 December 2009, gain on the Equity Swap was approximately RMB298,604,000 (2008: loss on Equity Swap was RMB385,799,000).

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 capitalise on its cost advantages to further expand the markets home and abroad and to leverage on its cooperation with GE Energy and other international partners, such as Vestas, RE Power and Nordex , 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 development and manufacture of multi-megawatt wind gear transmission equipment. The Group has achieved a breakthrough in the research and development of wind gear transmission equipment of 3MW, it is believed that the new products will contribute to sales in 2010. 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 9,000MW in 2010.

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 PRC government plans to invest RMB4 trillion to stimulate domestic demand and has 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.

The Company has carried out research on the rail transportation market for many years. With our strong research and development and production capacity, our products contributed to the sales in 2009 and will plan to commence mass production in 2010. The development of rail transportation will make the high speed locomotive transmission equipment a new source of economic growth of the Company.

In 2009, as the Company's marine transmission business has been affected by the financial crisis, the Company strived to explore China's market and launched diversified products to fulfill the different demands of customer in 2009. The orders for domestic customers increased gradually in 2009. It is believed sales level in 2010 will be similar to that of in 2009.

The Company will also actively carry out research on mechatronic integration for its products to expand the market sales and increase the additional value of the Company. The Company will strive to develop power transmission equipment, such as electronic control system, inverter and electrical equipment so as to provide one stop service to existing customers.

MANAGEMENT DISCUSSION AND ANALYSIS

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 quality. Our efforts in increasing production capacity will improve our economies of scale. Overseas cooperation agreements will also be targeted for business market expansion.

PLEDGE OF ASSETS

As at 31 December 2009, bank deposits of approximately RMB451,389,000 (2008: RMB502,696,000) 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 2009.

CONTINGENT LIABILITIES

As at 31 December 2009, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 31 December 2009, 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 RMB666,806,000 and RMB57,498,000 respectively (2008: RMB1,656,493,000 and RMB53,051,000). Details are set out in notes 38 and 40 to the notes to the consolidated financial statements respectively.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

The Group's operations are mainly conducted in the PRC. With the exception of export sales and 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 are not subject to significant foreign exchange rate risks. The Group has not used any foreign currency derivatives to hedge against the exposure in foreign exchange.

As at 31 December 2009, 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 and the amount recovered from the early termination of the equity swap contract of approximately HK$883,505,000 were mostly converted into Renminbi. In addition, for bank borrowings that may expose to foreign exchange rate risks, would be the Group's bank borrowing denominated in U.S. dollars as at 31 December 2009 amounting to approximately US$6,000,000. 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 RMB30,587,000 (2008: RMB37,012,000), which was due to the appreciation of Renminbi against major foreign currencies in 2009. 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 2010.

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST RATE RISK

The loans of the Group is mainly sourced from bank borrowings. Therefore, the benchmark lending rate announced by the People's Bank of China ("PBOC") will have a direct impact on the Group's cost of debt and future changes in interest rate will also have certain impacts on the Group's cost of debt. With a good credit record, a majority of the Group's cost of debt are charged at an interest rate below the prevailing interest rate of PBOC of RMB loans over the same period. The Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels. The Group currently does not have any interest rate hedging policy.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2009, the Group employed approximately 4,931 employees (2008: 3,993). Staff cost of the Group for 2009 approximated to RMB389,034,000 (including RMB Nil share-based payment expenses) (2008: RMB312,405,000 (including RMB30,030,000 share-based payment expenses)). 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.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD

Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("NGC"), 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, NGC is interested as to 50.01% in Jiangsu Hongsheng. For the year ended 31 December 2009, the Company generated an income of approximately RMB5,369,000 from its investment in Jiangsu Hongsheng (2008: RMB8,256,000).

Save as disclosed above, there was no significant investment held by the Group during the year.

MATERIAL ACQUISITION AND DISPOSAL

During the year, 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 60, is the Chairman, Chief Executive Officer and executive Director of the Group. Mr. Hu is a university graduate and a senior engineer by profession. Mr. Hu has more than 30 years of experience in the management of machinery and industrial enterprises and has served as the deputy head of the equipment section, deputy head of workshop, deputy factory manager and deputy general manager of Nanjing Engineering Equipment Factory(南京工藝裝備廠）. He has also worked as the factory director and general manager of various state-owned enterprises and foreign-invested enterprises including Nanjing Atlas Copco Construction Machinery Ltd. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory (currently known as "NGID", the former controlling shareholder of Nanjing High Accurate). He has been the chairman and the general manager of Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("NGC"), since March 2007. Mr. Hu also holds directorship in certain subsidiaries of the Group, namely Nanjing High Speed & Accurate Gear (Group) Co., Ltd.) ("Nanjing High Accurate"), Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), Nanjing Gaote Gear Box Manufacturing Co., Ltd. (formerly known as Nanjing Ningjiang Gear Box Manufacturing Co., Ltd.) ("Nanjing Gaote"), Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("Dongalloy"), 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 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 vice president of the [中國新能源發電網]. He has been awarded the ["National 1 May Labour Medal"]（全國五一勞動獎章）and title of ["The 4th Outstanding Entrepreneur of the Machinery Industry"]（第四屆全國機械工業明星企業家）.

Mr. Chen Yongdao, aged 47, is an executive Director of the Group. Mr. Chen is a postgraduate and a senior engineer by profession. He has served as the deputy head of the inspection and gauging section, head of the production allocation section of the factory and deputy general manager of Nanjing High Speed Gear Factory (currently known as "NGID", the former controlling shareholder of Nanjing High Accurate). He has become a director and the deputy general manager of NGC since March 2007. Mr. Chen also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Dongalloy, Ningkai, Nanjing Marine and China Transmission Holdings. Mr. Chen, an expert on heat treatment of metallic materials, has been 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.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Lu Xun, aged 55, is an executive Director of the Group. Mr. Lu is a postgraduate and senior engineer by profession. He initially worked as the deputy head of the quality assurance section, deputy head of the technology section, head of the operational planning section, deputy Chief Economist, head of the operational planning division, and deputy general manager of Nanjing High Speed Gear Factory (currently known as "NGID", the former controlling shareholder of Nanjing High Accurate). He has become a director and deputy general manager of NGC since March 2007. Mr. Lu also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing High Speed Gear (Shenyang) Sales Co., Ltd. ("Shenyang Sales Co."), Eagle Nice, Goodgain and China Transmission Holdings. Mr. Lu, an expert on marketing management for mechanical transmission equipment, has been 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 56, is an executive Director of the Group. Mr. Li is a university graduate. He has worked as a deputy secretary of the youth corps committee, deputy party secretary of the tools section, Chairman of the Workers' Union of Nanjing High Speed Gear Factory (currently known as "NGID", the former controlling shareholder of Nanjing High Accurate), and later general manager of Yongte. He has become a director and deputy general manager of NGC since March 2007. Mr. Li also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing Gaote, Ningkai, Yongte, Nanjing Wind Power, Eagle Nice, Goodgain and China Transmission Holdings. He is also the general manager of Nanjing Gaote. Mr. Li has been engaged in the enterprise management of the Group for more than 25 years and has rich experience in mechanical transmission equipment production management.

Mr. Liu Jianguo, aged 40, is an executive Director of the Group. Mr. Liu is a university graduate and a senior engineer by profession. He has worked as deputy head and head of the research centre, assistant general manager, acting chief engineer and chief engineer of Nanjing High Speed Gear Factory (currently known as "NGID", the former controlling shareholder of Nanjing High Accurate). He has worked as a director, deputy general manager and chief engineer of Nanjing High Accurate since August 2001. He has become a general manager of Nanjing High Speed since January 2005 and has also become a director and deputy general manager of NGC since March 2007. Mr. Liu also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing Gaote, Ningkai, Nanjing Wind Power, Yongte, Ninghongjian and China Transmission Holdings. Mr. Liu has been 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 49, is an executive Director of the Group. Mr. Liao is a postgraduate and a senior engineer by profession. He has worked as deputy head and head of the workshop, head of the technological reform section, deputy chief engineer, head of the enterprise management section, assistant to general manager of Nanjing High Speed Gear Factory (currently known as "NGID", the former controlling shareholder of Nanjing High Accurate). He has been the secretary to the board of directors of Nanjing High Accurate since August 2001, and has also been the assistant to general manager and the head of investment operations division of Nanjing High Accurate since September 2001. Mr. Liao has been a director and deputy general manager of NGC since March 2007. Mr. Liao also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Dongalloy, Ningkai, Shenyang Sales Co., Nanjing Wind Power, Nanjing Marine, Goodgain, Ninghongjian and China Transmission Holdings. Mr. Liao has experience in the heat treatment of metallic materials and has been engaged in technical and investment management for more than 20 years.

DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTOR

Mr. Zhang Wei, aged 45, is a non-executive Director of the Company. Mr. Zhang is a postgraduate and has obtained a degree in semi-conductor physics. 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 a Director of the Company since 27 July 2006. Mr. Zhang is also a director of NGC and Nanjing High Accurate, subsidiaries of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xihe, aged 51, is an independent non-executive Director of the Company. He is a Doctor in accountancy. 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 obtained professional accounting qualification recognized in the PRC in July 1999. 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. He is currently a professor at the Faculty of Accounting and Financial Management of Nanjing Normal University(南京師範大學), head of Accounting and Financial Development Research Centre 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）. Mr. Jiang joined the Company on 8 June 2007 as independent non-executive Director.

Mr. Zhu Junsheng, aged 70, is an independent non-executive Director of the Company. He graduated from Nankai University in 1964. He was engaged in technological development of the aviation industry from 1964 to 1984 and renewable energy management in government authorities from 1984 to 2000. Mr. Zhu is currently vice president of the Chinese Renewable Energy Society, 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 an executive member of the China Energy Research Society. He has extensive experience in the renewable energy industry, one of the markets that the Company strives to develop for its products. Mr. Zhu joined the Company on 8 June 2007 as independent non-executive Director.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Shimin, aged 51, is an independent non-executive Director of the Company. Mr. Chen graduated from Shanghai University of Finance and Economics and obtained a bachelor's degree and a master's degree in 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 is a management accountant registered in the United States, member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. He is currently a professor of accounting at China Europe International Business School. 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. 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 University of Lousiana at Lafayette. 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, Mr. 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. and Hangzhou i-Cafe Information Technology Co., Ltd..

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 47, is a chief financial officer and company secretary of the Group. He graduated from York University with a Bachelor of Arts degree. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is a qualified accountant, 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 and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Company.

Ms. Zhou Jingjia, aged 46, is the financial controller of NGC. She graduated from Soochow University majoring in accounting and is a member of the Chinese Institute of Certified Public Accountants and a qualified accountant by profession. 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. In 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 regional manager overseeing the accounting departments of the Atlas Copco Group's certain production companies in China. Ms Zhou joined the Group in July 2006. She became the director of NGC in March 2007. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed and China Transmission Holdings.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Zhang Xueyong, aged 46, is the deputy head of the financial department of NGC. He 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 joined Nanjing High Speed Gear Factory (currently known as “NGID”, the former controlling shareholder of Nanjing High Accurate) in January 1985 and was appointed as the deputy head of the financial department of the Company in December 2000. He has become the deputy head of the financial department of Nanjing High Accurate in August 2001 and is currently the deputy head of the financial department of NGC. He is one of the members of the group of controlling shareholders of the Company (the “Management Shareholder”).

Mr. Wang Zhengbing, aged 38, is the deputy general manager of Nanjing High Speed. He graduated from Zhejiang University（浙江大學） in 1993 majoring in metallic materials and thermo processing. Mr. Wang is a senior engineer by profession. He joined Nanjing High Speed Gear Factory (currently known as “NGID”, the former controlling shareholder of Nanjing High Accurate) in 1993. He took up the positions as the deputy general manager and the head of production planning department of Nanjing High Speed from 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 Zhengrong, aged 42, is the deputy general manager of Nanjing High Speed. He graduated from Chengdu University of Science and Technology（成都科技大學）in 1988 majoring in machinery design and manufacture. Mr. Wang is a senior engineer by profession. In the same year, he joined Nanjing High Speed Gear Factory (currently known as “NGID”, the former controlling shareholder of Nanjing High Accurate) and was appointed as head of technology department（工藝處）of the company in December 2000. He has been appointed as the head of technology department of Nanjing High Speed since May 2004, and has been appointed as the deputy general manager of the Company since July 2006. Mr. Wang is also a director of Ninghongjian, a subsidiary of the Group, and one of the Management Shareholders of the Company.

Mr. Xu Yong, aged 37, is the deputy head of the financial department of NGC. He graduated from Nanjing Institute of Economics majoring in accounting in 1994 and 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. Mr. Xu joined Nanjing High Speed Gear Factory (currently known as “NGID”, the former controlling shareholder of Nanjing High Accurate) in 1994 and has served as head of financial department of the company since July 2001. He was appointed as the head of financial department of Nanjing High Speed in December 2003. He has been appointed as the assistant to general manager of Nanjing High Speed since January 2005 and is currently the deputy head of the financial department of NGC. He is also one of the Management Shareholders.

Mr. Zhou Zhijin, aged 37, is the deputy general manager of Nanjing High Speed. 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. Mr. Zhou joined Nanjing High Speed Gear Factory (currently known as “NGID”, the former controlling shareholder of Nanjing High Accurate) in 1991. Mr. Zhou has served as the deputy head of human resources department of Nanjing High Accurate since September 2001. He has been the deputy general manager of Nanjing High Speed since July 2006.

DIRECTORS' REPORT

The Directors of the Company are pleased to present the Directors' report and the audited financial statements of the Group for the year ended 31 December 2009.

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 44, 19 and 20 to the notes to the consolidated financial statements respectively.

OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income on pages 44 and 45 in the consolidated financial statements.

FINAL DIVIDEND AND CLOSURE OF REGISTER OF MEMBERS

During the year, a final dividend of HK25 cents (equivalent to approximately RMB22 cents) per share (2008: HK8 cents (equivalent to approximately RMB7 cents)) for 2008 has been paid to shareholders.

The Board has recommended payment of a final dividend of HK30 cents per share for the year ended 31 December 2009 to be paid on around 2 July 2010 to shareholders whose names appear on the register of members of the Company on 18 June 2010 subject to shareholders' approval. The register of members of the Company will be closed from Monday, 14 June 2010 to Friday, 18 June 2010, 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 logged with the Company's branch share register in Hong Kong, Computershare Hong Kong Investor Services Limited, at shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30p.m. on Friday, 11 June 2010.

RESERVES

Movements in the reserves of the Company and the Group for the year ended 31 December 2009 are separately set out in note 43 and consolidated statement of changes in equity.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2009 was approximately RMB2,247,471,000 (2008: RMB2,664,699,000).

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2009 are set out in note 15 to the notes to the consolidated financial statements.

DIRECTORS' REPORT

SHARE CAPTIAL

Details of the registered and issued share capital of the Company are set out in note 35 to the notes to the consolidated financial statements.

DONATION EXPENDITURE

During 2009, the donation expenditure of the Group was approximately RMB280,000 (2008: RMB1,700,000).

PURCHASE, REDEMPTION OR SALE OF LISTED SHARES OF THE COMPANY

As at 31 December 2009, 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 share option scheme is a share incentive scheme and is established to recognise and acknowledge the contributions of the eligible participants who have had or may have made to the Group. The share option scheme will provide the eligible participants an opportunity to have a personal stake in the Company with the view to (i) motivating the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Share options do not confer rights to the shareholders to receive dividends or vote at shareholder's meetings. Summary of share options is set out in note 37 to the notes to the consolidated financial statements.

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

					Number of share options					
Grantee(s)	Date of grant	Exercisable period (note 1)	Vesting period	Exercise per share (HK$) (notes 2 & 3)	Outstanding as at 1 January 2009	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2009 (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

DIRECTORS' REPORT

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 year.

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 RMB1,076,292,000 and RMB291,540,000, representing 24.8% and 6.7% of the total purchase amounts respectively. Besides, the revenue amount of the Groups five major customers and the largest customer were approximately RMB2,335,011,000 and RMB878,374,000, representing 41.3% and 15.6% 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 or 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 during the year.

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 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 the 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 the date of his re-election on 19 June 2009
Mr. Liu Jianguo	Three years from the date of his re-election on 19 June 2009
Mr. Liao Enrong	Three years from the date of his re-election on 19 June 2009

Non-executive Director:

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

Independent non-executive Directors:

Mr. Jiang Xihe	Three years from the date of his re-election on 19 June 2009
Mr. Zhu Junsheng	Three years from the date of his re-election on 20 June 2008
Mr. Chen Shimin	Three years from the date of his re-election on 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' REPORT

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

As at 31 December 2009, 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 continued 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.

DIRECTORS' REPORT

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

As at 31 December 2009, 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	268,474,024 (Long Position)	21.56 (Long Position)
JPMorgan Chase & Co. (Note 2)	Beneficial owner, investment manager and custodian corporation/ approved lending agent	99,862,029 (Long Position) 1,476,378 (Short Position) 83,896,889 (Lending Pool)	8.02 (Long Position) 0.12 (Short Position) 6.74 (Lending Pool)
Schroder Investment Management (Hong Kong) Limited (Note 3)	Investment manager	63,142,000 (Long Position)	5.07 (Long Position)
FIL Limited (Note 4)	Investment manager	62,891,000 (Long Position)	5.05 (Long Position)

DIRECTORS' REPORT

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

Notes:

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

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

Capacity	No. of Shares
Beneficial owner	6,665,140 (long position)
	1,476,378 (short position)
Investment manager	9,300,000 (long position)
Custodian corporation/approved lending agent	83,896,889 (short position)

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

DIRECTORS' REPORT

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

Notes: *(Continued)*

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

(4) These Shares were held by FIL Limited in its capacity as investment manager.

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2009, 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 2009 are set out in note 42 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 the note 42 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 42 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. These continuing connected transactions have been approved by the Board.

Save as disclosed above, transactions listed in note 42 to the notes to the consolidated financial statements do not constitute discloseable connected transaction under Chapter 14A of the Listing Rules.

DIRECTORS' REPORT

MANAGEMENT CONTRACTS

As at 31 December 2009, 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 throughout the year.

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 2010.

ESTABLISHMENT OF SUBSIDIARIES

Detail of the subsidiaries of the Company are set out in note 44 to the notes to the consolidated financial statements. The Company established the following new wholly-owned subsidiaries during the year:

Name of subsidiary	Place and date of incorporation	Register capital/ issued and fully paid share capital	Principal activities
Nanjing Gaochuan Electrical & Mechanical Autocontrol Equipment Co., Ltd. 南京高傳機電自動控制設備有限公司	The PRC 22 October 2009	RMB260,000,000	Manufacturing and sales of gear boxes and fittings

DIRECTORS' REPORT

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 30 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, 16 April 2010

CORPORATE GOVERNANCE REPORT

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 standards 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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") during the year ended 31 December 2009 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 2009.

CORPORATE GOVERNANCE REPORT

COMPOSITION AND PRACTICES OF THE BOARD

The Board of the Company collectively takes 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 seven meetings during the year ended 31 December 2009. The attendance of the Directors at Board meetings is as follows:

	Attendance during the year
Executive Directors:	
Mr. Hu Yueming (Chairman and Chief Executive Officer)	6/7
Mr. Chen Yongdao	3/7
Mr. Lu Xun	3/7
Mr. Li Shengqiang	3/7
Mr. Liu Jianguo	3/7
Mr. Liao Enrong	6/7
Non-executive Director:	
Mr. Zhang Wei	4/7
Independent non-executive Directors:	
Mr. Jiang Xihe	4/7
Mr. Zhu Junsheng	3/7
Mr. Chen Shimin	4/7

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 authorisation 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.

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

CORPORATE GOVERNANCE REPORT

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

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 favourable 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 on 20 June 2008

The service term of independent non-executive directors is:

Mr. Jiang Xihe	Three years from the date of his re-election on 19 June 2009
Mr. Zhu Junsheng	Three years from the date of his re-election on 20 June 2008
Mr. Chen Shimin	Three years from the date of his re-election on 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.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(Continued)*

The remuneration committee held one meeting during the year ended 31 December 2009. The attendance of the members of the remuneration committee at the meetings is as follows:

	Attendance during the year
Non-executive Directors:	
Mr. Chen Shimin (the Chairman of the committee)	1/1
Mr. Ziang 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 an 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 and contributions.

During the year ended 31 December 2009, the Company has made no appointment of directors.

AUDIT COMMITEE

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 the external auditor and offering advice 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 during the year ended 31 December 2009 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 2009 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 *(the Chairman of the Committee)*	2/2
Mr. Zhu Junsheng	1/2
Mr. Zhang Wei	2/2

The annual report for the year ended 31 December 2009 of the Group had been reviewed by the audit committee.

REMUNERATION OF AUDITOR

For the year ended 31 December 2009, the Group paid approximately RMB3,657,000 (2008: 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 42 to 43.

CORPORATE GOVERNANCE REPORT

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 2009, the Company has conducted comprehensive internal control over the Group, including:

(1) Environment of Control

We ensured that an active and devoted Board, high 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 an 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 operation 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.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL *(Continued)*

(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 2009, the Board has reviewed the internal control system of the Group based on the reports from the management and internal audits. The review covered all critical aspects of the control, including financial control, operational control, compliance control and risk management functions. The Board has also reviewed the adequacy of resources, qualification and experience of staff of the issuer's accounting and financial reporting function, and their training programmes and budget. The Board believed 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.

INDEPENDENT AUDITOR'S REPORT

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 the 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 44 to 128, which comprise the consolidated statement of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, 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, in accordance with our agreed terms of engagement 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

INDEPENDENT AUDITOR'S REPORT

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 2009 and of the Group's profit and cash flows 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
16 April 2010

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	2009 RMB'000	2008 RMB'000
Revenue	7	5,647,045	3,439,220
Cost of sales		(3,785,804)	(2,447,060)
Gross profit		1,861,241	992,160
Other income	8a	105,369	64,814
Other gains and loss	8b	(139,778)	245,039
Distribution and selling costs		(139,174)	(106,939)
Administrative expenses		(318,036)	(281,503)
Research and development costs		(70,359)	(55,452)
Other expenses		(48,939)	(74,784)
Finance costs	9	(99,832)	(28,693)
Share of results of associates		1,904	(1,051)
Share of results of jointly controlled entities		13,655	10,892
Profit before taxation		1,166,051	764,483
Taxation	10	(200,273)	(71,831)
Profit for the year	11	965,778	692,652
Other comprehensive expense			
Exchange difference arising on translation		(3)	—
Gain(loss) on fair value change of available-for-sale investments		4,881	(9,754)
Deferred tax liability (arising) reversal on fair value change of available-for-sale investments		(878)	1,418
Reclassification adjustment:			
- Release of deferred tax liability upon disposal of available-for-sale investments		1,338	—
- Release on disposal of available-for-sale investments		(8,480)	—
Other comprehensive expense for the year		(3,142)	(8,336)
Total comprehensive income for the year		962,636	684,316

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	2009 RMB´000	2008 RMB´000
Profit (loss) for the year attributable to:			
Owners of the Company		966,377	692,415
Minority interests		(599)	237
		965,778	692,652
Total comprehensive income attributable to:			
Owners of the Company		963,235	684,079
Minority interests		(599)	237
		962,636	684,316
Earnings per share based on profit attributable to the owners of the Company (reported earnings per share)	14(a)		
Basic (RMB)		0.78	0.56
Diluted (RMB)		0.77	0.13
Earnings per share excluding the effects of other gains and loss and transaction costs on convertible bonds (underlying earnings per share)	14(b)		
Basic (RMB)		0.89	0.39
Diluted (RMB)		0.88	0.37

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	NOTES	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	3,844,686	2,361,940
Prepaid lease payments	16	270,826	242,256
Goodwill	17	12,091	—
Intangible assets	18	107,605	61,205
Interests in associates	19	20,389	18,485
Interests in jointly controlled entities	20	583,167	569,512
Available-for-sale investments	21	62,500	34,948
Deposit for land lease	22	107,300	144,300
Prepayment for acquisition of property, plant and equipment	22	105,911	176,870
Deferred tax assets	31	27,095	7,184
Derivative financial instrument	33	55,991	—
		5,197,561	3,616,700
CURRENT ASSETS			
Inventories	23	1,312,810	1,335,674
Prepaid lease payments	16	5,784	5,125
Available-for-sale investments	21	—	20,500
Trade and other receivables	24	2,613,260	1,294,246
Amount due from an associate	25	23,928	24,026
Amount due from a jointly controlled entity	26	7,090	14,780
Amount due from a related party	27	—	900
Pledged bank deposits	28	451,389	502,696
Restricted cash	33	151,904	981,566
Bank balances and cash	28	471,193	681,643
		5,037,358	4,861,156

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	NOTES	2009 RMB´000	2008 RMB´000
CURRENT LIABILITIES			
Trade and other payables	29	**1,566,058**	2,048,940
Amount due to a related party	27	**531**	—
Amount due to a jointly controlled entity	26	**23,568**	—
Tax liabilities		**141,689**	53,648
Borrowings - due within one year	30	**1,556,273**	1,292,166
		3,288,119	3,394,754
NET CURRENT ASSETS		**1,749,239**	1,466,402
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,946,800**	5,083,102
NON-CURRENT LIABILITIES			
Borrowings - due after one year	30	**1,012,041**	68,346
Deferred tax liabilities	31	**48,751**	23,937
Financial liabilities designated as at fair value through profit or loss - convertible bonds	32	**1,368,949**	931,550
Derivative financial instrument	33	**—**	292,794
Deferred income	34	**66,707**	31,830
		2,496,448	1,348,457
		4,450,352	3,734,645

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2009

	NOTES	2009 RMB'000	2008 RMB'000
CAPITAL AND RESERVES			
Share capital	35	94,633	94,629
Reserves		4,326,304	3,636,457
Equity attributable to owners of the Company		4,420,937	3,731,086
Minority interests		29,415	3,559
		4,450,352	3,734,645

The consolidated financial statements on pages 44 to 127 were approved and authorised for issue by the Board of Directors on 16 April 2010 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Attributable to owners of the Company												
	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	Exchange reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2008	94,629	2,372,884	77,651	154,479	82,230	52,335	11,475	—	—	258,862	3,104,545	3,322	3,107,867
Profit for the year	—	—	—	—	—	—	—	—	—	692,415	692,415	237	692,652
Loss on fair value change of available-for-sale investments	—	—	—	—	—	—	(9,754)	—	—	—	(9,754)	—	(9,754)
Deferred tax liability reversal on fair value change of available-for-sale investments	—	—	—	—	—	—	1,418	—	—	—	1,418	—	1,418
Total comprehensive income for the year	—	—	—	—	—	—	(8,336)	—	—	692,415	684,079	237	684,316
Dividend recognised as distribution (note 13)	—	—	—	—	—	—	—	—	—	(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
Profit (loss) for the year	—	—	—	—	—	—	—	—	—	966,377	966,377	(599)	965,778
Exchange difference arsing on translation	—	—	—	—	—	—	—	(3)	—	—	(3)	—	(3)
Gain on fair value change of available-for-sale investments	—	—	—	—	—	—	4,881	—	—	—	4,881	—	4,881
Deferred tax liability arising on fair value change of available-for-sale investments	—	—	—	—	—	—	(878)	—	—	—	(878)	—	(878)
Release of deferred tax liability upon disposal of available-for-sale investments	—	—	—	—	—	—	1,338	—	—	—	1,338	—	1,338
Release on disposal of available-for-sale investments	—	—	—	—	—	—	(8,480)	—	—	—	(8,480)	—	(8,480)
Total comprehensive income for the year	—	—	—	—	—	—	(3,139)	(3)	—	966,377	963,235	(599)	962,636

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2009

	Attributable to owners of the Company												
	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	Exchange reserve RMB'000	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
Dividend recognised as distribution (note 13)	–	–	–	–	–	–	–	–	–	(274,367)	(274,367)	–	(274,367)
Appropriation	–	–	–	–	26,085	–	–	–	–	(26,085)	–	–	–
Conversion of convertible bonds	4	979	–	–	–	–	–	–	–	–	983	–	983
On acquisition of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	11,756	11,756
On deemed disposal of partial interest in a subsidiary	–	–	–	–	–	–	–	–	–	–	–	14,699	14,699
At 31 December 2009	94,633	2,373,863	77,651	154,091	163,702	52,335	–	(3)	30,030	1,474,635	4,420,937	29,415	4,450,352

Note a: The deemed capital contribution reserve arose from a deemed capital contribution from shareholders 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. ("Nanjing High Accurate").

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 Nanjing High Accurate, which was contributed by the founder shareholders of Nanjing High Accurate when the founder shareholders obtained control of Nanjing High Accurate as well as the subsequent acquisition of additional equity interest in Nanjing High Accurate and contributed to the Group by the founder shareholders of Nanjing High Accurate.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTE	2009 RMB´000	2008 RMB´000
OPERATING ACTIVITIES			
Profit before taxation		1,166,051	764,483
Adjustments for:			
Allowance for inventories		19,876	483
Amortisation of intangible assets		22,677	15,569
Bank interest income		(26,228)	(43,372)
Depreciation of property, plant and equipment		193,497	145,185
Finance costs		99,832	28,693
(Gain) loss on fair value change on derivative financial instrument		(691,823)	385,799
Gain on disposal of available-for-sale investments		(8,480)	—
Gain on repurchase of convertible bonds		—	(107,941)
Impairment loss on intangible assets		1,416	—
Impairment loss on trade receivables		15,475	2,236
Interest on available-for-sale investments		(3)	(382)
Loss (gain) on fair value change on convertible bonds		438,382	(522,897)
Loss (gain) on disposal of property, plant and equipment		1,394	(915)
Loss on partial termination of derivative financial instrument		393,219	—
Release of prepaid lease payments		4,492	2,732
Share of results of associates		(1,904)	1,051
Share of results of jointly controlled entities		(13,655)	(10,892)
Share-based payment expenses		—	30,030
Transaction cost on convertible bonds		—	34,935
Operating cash flows before movements in working capital		1,614,218	724,797
Decrease (increase) in inventories		11,516	(690,050)
Increase in trade and other receivables		(1,329,255)	(657,985)
Decrease (increase) in amount due from an associate		98	(13,120)
Decrease (increase) in amount due from a jointly controlled entity		31,258	(14,780)
(Decrease) increase in trade and other payables		(498,031)	819,870
Cash (used in) generated from operations		(170,196)	168,732
Income tax paid		(106,873)	(19,510)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(277,069)	149,222

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTE	2009 RMB'000	2008 RMB'000
INVESTING ACTIVITIES			
Purchase of property, plant and equipment		(1,499,335)	(943,906)
Prepayment for acquisition of property, plant and equipment		(105,911)	(176,870)
Expenditure on development projects		(70,493)	(21,926)
Payment on partial termination of derivative financial instrument		(50,181)	—
Prepaid lease payments paid		(31,761)	(84,784)
Purchase of available-for-sale investments		(32,150)	(50,500)
Deposit paid for land lease		(7,300)	(144,300)
Decrease (increase) in restricted cash		829,662	(981,566)
Decrease (increase) in pledged bank deposits		51,307	(325,431)
Refund on deposit for land lease		42,340	—
Government grants received		34,877	31,830
Interest received		26,231	43,754
Proceeds on disposal of available-for-sale investments		29,979	43,000
Capital injection from minority shareholders		14,699	—
Repayment from a related party		900	816
Acquisition of a subsidiary	36	1,019	—
Proceeds on disposal of property, plant and equipment		602	1,937
Investment in a jointly controlled entity		–	(548,620)
Investment in an associate		–	(12,000)
NET CASH USED IN INVESTING ACTIVITIES		(765,515)	(3,168,566)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTE	2009 RMB´000	2008 RMB´000
FINANCING ACTIVITIES			
New bank borrowings raised		3,517,323	1,360,512
Advance from a related party		531	—
Repayment of bank borrowings		(2,311,521)	(493,858)
Dividend paid		(274,367)	(87,568)
Interest paid		(99,832)	(28,693)
Issue of convertible bonds		—	1,996,300
Repurchase of convertible bonds		—	(526,917)
Transaction cost on convertible bonds		—	(34,935)
NET CASH FROM FINANCING ACTIVITIES		832,134	2,184,841
NET DECREASE IN CASH AND CASH EQUIVALENTS		(210,450)	(834,503)
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		681,643	1,516,146
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		471,193	681,643

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 44, 19 and 20 respectively.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

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

In the current year, the Group has applied the following new and revised standards, amendments and interpretations ("new and revised IFRSs").

IAS 1 (Revised 2007)	Presentation of Financial Statements
IAS 23 (Revised 2007)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRIC 18	Transfers of Assets from Customers
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning on or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

Except as described below, the adoption of the new and revised IFRSs had no material effect on the consolidated financial statements of the Group for the current or prior accounting periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

New and revised IFRSs affecting presentation and disclosure only

IAS 1 (Revised 2007) Presentation of Financial Statements

IAS 1 (Revised 2007) has introduced a number of terminology changes (including revised titles for the consolidated financial statements) and changes in the format and content of the consolidated financial statements.

IFRS 8 Operating Segments

The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments (see note 7) and changes in the basis of measurement of segment revenue, segment profit or loss, segment assets.

Improving Disclosures about Financial Instruments
(Amendments to IFRS 7 Financial Instruments: Disclosures)

The amendments to IFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. The Group has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(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)	Amendment to IFRS 5 as part of Improvements to IFRSs 2008[1]
IFRSs (Amendments)	Improvements to IFRSs April 2009[2]
IAS 24 (Revised)	Related Party Disclosures[6]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 32 (Amendment)	Classification of Rights Issues[4]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters[5]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRS 9	Financial Instruments[7]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirement[6]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[5]

1 Effective for annual periods beginning on or after 1 July 2009.
2 Amendments that are effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.
3 Effective for annual periods beginning on or after 1 January 2010.
4 Effective for annual periods beginning on or after 1 February 2010.
5 Effective for annual periods beginning on or after 1 July 2010.
6 Effective for annual periods beginning on or after 1 January 2011.
7 Effective for annual periods beginning on or after 1 January 2013.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

IFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group´s financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements.

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. 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.

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 statement of comprehensive income 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses and is presented separately in the consolidated statement of financial position.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

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 statement of financial position 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. Under the equity method, investments in jointly controlled entities are carried in the consolidated statement of financial position 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Jointly controlled entities *(Continued)*

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. Goodwill is included within the carrying amount of the investment and is not tested for impairment separately. Instead, the entire carrying amount of the investment is tested for impairment as a single asset. Any impairment loss recongised is not allocated to any asset, including goodwill, that forms part of the carrying amount of the investment in the associate. Any reversal of impairment loss is recognised to the extent that the recoverable amount of the investment subsequently increases.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

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

Revenue recognition

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

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

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

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 losses.

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 assets, commences when the assets are ready for their intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Property, plant and equipment *(Continued)*

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 profit or loss in the period 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

Operating lease payments are recognised as an expense 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.

Leasehold land

Leasehold interest in land are accounted for as operating leases and released over the lease term on a straight line basis.

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 the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. RMB) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the year, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve). Such exchange differences are reclassified to profit or loss in the period in which the foreign operation is disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as 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 in profit or loss in the period in which they are incurred.

Government grants

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss over the useful lives of the related assets. Other government grants are recognised as revenue over the periods necessary to match them with the costs for which they are intended to compensate, on a systematic basis. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes are charged as expenses when employees have rendered service entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 statement of comprehensive income 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 end of the reporting period.

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. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those 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 associated with investments in subsidiaries and associates, and interests in joint ventures, 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period 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 assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

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 (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

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 listed above. 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 measured at cost less accumulated amortisation and accumulated impairment losses (if any).

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 profit or loss in the period when the asset is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Financial assets

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

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 to the net carrying amount on initial recognition.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

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 statement of financial position 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. 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, 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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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.

Available-for-sale financial assets are measured at fair value at the end of the reporting period. Changes in fair value are recognised in other comprehensive income and accumulated in investment revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to 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 the end of the reporting period (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 the end of the reporting period. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

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

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

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

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

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

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity

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

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

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

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.

Financial liabilities at FVTPL are measured at fair value, with changes in fair value arising on remeasurement 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity *(Continued)*

Other financial liabilities

Other financial liabilities including trade and other payables, amount due to a jointly controlled entity/a related party and 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

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately.

Derecognition

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, 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 any such indication exists, the recoverable amount of an asset is estimated in order to determine the extent of the impairment loss, if any.

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.

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 2009, the carrying amount of trade receivables is RMB2,267,191,000 (net of allowance for bad and doubtful debts of RMB49,250,000) (31 December 2008: carrying amount of 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 the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in operation. As at 31 December 2009, the carrying amount of inventories is RMB1,312,810,000 (net of allowance for inventories of RMB39,633,000) (31 December 2008: carrying amount of RMB1,335,674,000, net of allowance for inventories of RMB19,757,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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 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 32 and 33, 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 30 and convertible bonds disclosed in note 32, net of cash and cash equivalents and equity attributable to owners 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 debts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2009 RMB'000	2008 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**3,436,612**	3,192,927
Available-for-sale investments	**62,500**	55,448
Derivative financial instrument	**55,911**	—
Financial liabilities		
Amortised cost	**3,715,596**	2,718,196
Derivative financial instrument	**—**	292,794
Financial liabilities designated as at FVTPL – convertible bonds (see below)	**1,368,949**	931,550

6b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amounts due from (to) an associate, a jointly controlled entity and a related party, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(i) Currency risk

The Group mainly operates in the PRC with transactions substantially entered into in RMB. However, the Group exposed to currency risks which mainly arises from the foreign currency sales and purchases, bank balances and borrowings denominated in foreign currency. Approximately 9% of the Group's sales and 1% of the Group's purchase are denominated in currencies other than the functional currency of the respective group entities.

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

Assets

	2009 RMB'000	2008 RMB'000
Hong Kong Dollars (HKD)	210,056	1,043,384
United States Dollars (USD)	401,061	351,373
Euro Dollars (EUR)	76,800	182,985
Swiss Francs (CHF)	61	11,551
Japanese Dollars (JPY)	4,640	6,247

Liabilities

	2009 RMB'000	2008 RMB'000
Hong Kong Dollars (HKD)	16,079	292,794
United States Dollars (USD)	42,570	68,346
Euro Dollar (EUR)	77,175	—

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 and EUR against RMB.

The following table details the Group's sensitivity to a 5% (2008: 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 foreign currencies. For a 5% weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit.

	2009 RMB'000	2008 RMB'000
HKD impact	**(9,699)**	(37,529)
USD impact	**(17,925)**	(14,151)
EUR impact	**19**	(9,149)

(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 carried interest at prevailing interest rate and bank balances carried interest at prevailing market deposit rates. 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. Currently, 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.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China arising from the Group's RMB denominated borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(ii) Interest rate risk *(Continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate borrowings at the end of the reporting period. 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.

If interest rates had been 50 basis points (2008: 50 basis points) higher/lower and all other variables were held constant, the Group's profit for the year would decrease/increase by RMB4,760,000 (2008 increase/decrease by: RMB1,176,000).

The Group's sensitivity to interest rates has increased during the current year mainly due to the increase in variable-rate borrowings.

(iii) Other price risk

The Group is exposed to other price risk through its available-for-sale investments, convertible bonds and derivative financial instruments. The management monitors closely 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 listed equity securities for available-for-sale investments, as well as the share price of the Company for convertible bonds and derivative financial instruments assuming all other variables were held constant, at the end of the reporting period.

If the prices of the respective equity instruments had been 5% (2008: 5%) higher/lower:

- investment revaluation reserve would increase/decrease by nil (2008: RMB230,000) for the Group as a result of the changes in fair value of investments in listed equity securities;
- profit for the year ended 31 December 2009 would decrease/increase by RMB35,383,000 (2008: decrease /increase by RMB12,110,000) as a result of the changes in fair value of convertible bonds; and

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(iii) Other price risk *(Continued)*

Sensitivity analysis (Continued)

- profit for the year ended 31 December 2009 would increase/decrease by RMB10,509,000 (2008: increase/decrease by RMB34,257,000) as a result of the changes in fair value of derivative financial instrument.

In the management's opinion, the sensitivity analyses are unpresentative of the inherent market risks as the pricing model used in the fair value valuation of the convertible bonds and derivative financial instrument involves multiple variables are interdependent.

Credit risk

As at 31 December 2009, 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 statement of financial position.

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 the end of the reporting 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 2009, five customers engaged in the wind milling industry accounted for approximately 39.1% (2008: 31.8%) 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. Other than the above, no other concentration of credit risk on the Group's trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 2009, the Group has available unutilised short-term bank loan facilities of approximately RMB5,766 million (2008: RMB1,548 million). Details of which are set out in note 30.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. 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. The table includes both interest and principal cash flows.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk *(Continued)*

	Weighted average effective interest rate	0 - 30 days	31 - 90 days	91 - 365 days	1 - 5 years	Total undiscounted cash flows	Carrying amount
	%	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
2009							
Non-derivative financial liabilities							
Trade and other payables	–	96,852	327,654	698,677	–	1,123,183	1,123,183
Amount due to a jointly controlled entity	–	23,568	–	–	–	23,568	23,568
Amount due to a related party	–	531	–	–	–	531	531
Borrowings	6.50	133,904	267,809	1,205,139	1,044,933	2,651,785	2,568,314
Convertible bonds	–	–	–	–	1,254,288	1,254,288	1,368,949
		254,855	595,463	1,903,816	2,299,221	5,053,355	5,084,545
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	—	—	—	—	1,255,382	1,255,382	931,550
		213,979	388,247	2,083,094	1,325,604	4,010,924	3,649,746
Derivative-net settlement							
Equity Swap		—	—	—	296,672	296,672	292,794

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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 bonds and derivative financial instrument is determined using option pricing model. Major inputs are disclosed in notes 32 and 33.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

6. FINANCIAL INSTRUMENTS *(Continued)*

6c. Fair value *(Continued)*

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped in to Level 3 based on the degree to which the fair value is observable. Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 3 RMB'000
Financial asset at FVTPL	
Derivative financial instrument	55,991
Financial liability at FVTPL	
Convertible bonds	1,368,949

Reconciliation of level 3 fair value measurement of financial asset and financial liability

	Convertible bonds RMB'000	Derivative financial instrument RMB'000
At 1 January 2009	(931,550)	(292,794)
(Loss) gains for the year recognised in profit or loss (Note)	(438,382)	298,604
Conversion of convertible bonds	983	—
Payment on partial early termination	—	50,181
At 31 December 2009	(1,368,949)	55,991

Note:

Of the total gains and loss for the year included in profit or loss, loss of RMB438,000,000 and gain of 99,910,000 relates to convertible bonds and derivative financial instrument held at the end of the reporting period respectively. The total gains and loss are included in "other gains and loss" (note 8b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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.

The Group has adopted IFRS 8 *Operating Segments* with effect from 1 January 2009. IFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") for the purpose of allocating resources to segments and to assess their performance. In contrast, the predecessor standard *(IAS 14 Segment Reporting)* required an entity to identify two sets of segments (business and geographical) using a risks and returns approach.

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

The Group´s CODM, being the Company's Board of Directors, make decisions according to the revenue and operating results of each segment and the reports on the aging analysis of trade receivables. No information of liabilities is provided for the assessment of performance of different geographical area. Therefore only segment revenue, segment results and segment assets are presented.

The following is an analysis of the Group´s revenue by operating segment for the year under review. The PRC and Europe (mainly Italy) are two major operating segments reviewed by the CODM while the remaining market locations are grouped together to report to CODM for analysis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment revenue and results

The following is an analysis of the Group´s revenue and results by operating segments.

	2009 RMB´000	2008 RMB´000
Revenue		
- PRC	**4,808,948**	2,684,940
- Europe	**540,139**	414,686
- Others	**297,958**	339,594
	5,647,045	3,439,220
Segment profit		
- PRC	**1,506,502**	707,363
- Europe	**178,027**	106,736
- Others	**98,206**	87,408
	1,782,735	901,507
Other income, gains and losses	**(95,077)**	293,567
Finance costs	**(99,832)**	(28,693)
Share of results of associates	**1,904**	(1,051)
Share of results of jointly controlled entities	**13,655**	10,892
Unallocated expenses	**(437,334)**	(411,739)
Profit before taxation	**1,166,051**	764,483

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment revenue and results *(Continued)*

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the gross profit (including depreciation of production plants), government grants, sales of scrap materials and distribution and selling expenses earned/incurred by each segment. The remaining items in the profit or loss are unallocated.

Segment assets

	2009 RMB'000	2008 RMB'000
Segment assets		
- PRC	**1,930,710**	752,925
- Europe	**15,821**	22,902
- Others	**320,660**	192,613
Total segment assets	**2,267,191**	968,440
Unallocated assets	**7,967,728**	7,509,416
Consolidated total assets	**10,234,919**	8,477,856

Only the trade receivables of each segment are reported to the CODM for the purpose of the resources allocation and performance assessment. Hence, total segment assets represent the trade receivables of the Group while the unallocated assets represent the assets of the Group excluding trade receivables. The related impairment loss on trade receivables are not reported to the CODM as part of segment results.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Other segment information

2009

	PRC RMB´000	Europe RMB´000	Others RMB´000	Unallocated RMB´000	Total RMB´000
Amounts included in the measure of segment profit:					
Allowance for inventories	17,017	1,843	1,016	—	19,876
Depreciation of property, plant and equipment	141,409	15,883	8,762	—	166,054
Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:					
Depreciation of property, plant and equipment	141,409	15,883	8,762	27,443	193,497
Impairment loss on trade receivables	13,178	168	2,129	—	15,475
Impairment loss on intangible assets	1,416	—	—	—	1,416

2008

	PRC RMB´000	Europe RMB´000	Others RMB´000	Unallocated RMB´000	Total RMB´000
Amounts included in the measure of segment profit:					
Allowance for inventories	387	53	43	—	483
Depreciation of property, plant and equipment	99,397	15,352	12,572	—	127,321
Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:					
Depreciation of property, plant and equipment	99,397	15,352	12,572	17,864	145,185
Impairment loss on trade receivables	1,745	41	450	—	2,236

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Revenue from major product and services

The following is an analysis of the Group's revenue from its major products:

	Year ended	
	31 December 2009 RMB'000	31 December 2008 RMB'000
High-speed Heavy-load Gear Transmission Equipment	29,049	28,892
Gear Transmission Equipment for Construction Materials	794,200	461,011
General Purpose Gear Transmission Equipment	143,271	166,600
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	467,721	338,521
Wind Gear Transmission Equipment	3,805,074	1,800,766
Marine Gear Transmission Equipment	209,579	397,954
Transmission Equipment for High-speed locomotives and Urban Light Rails	14,279	—
Others	183,872	245,476
	5,647,045	3,439,220

Geographical information

The Group's non-current assets of RMB5,051,975,000 (2008: RMB3,574,568,000) are located in the PRC at the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	Year ended	
	31 December 2009 RMB'000	31 December 2008 RMB'000
Customer A[1]	**878,374**	N/A[2]
Customer B[1]	**717,491**	397,322

1 Revenue from wind gear transmission equipment.

2 The corresponding revenue did not contribute over 10% of the total sales of the Group.

8a. OTHER INCOME

	2009 RMB´000	2008 RMB´000
Bank interest income	**26,228**	43,372
Interest on available-for-sale investments	**3**	382
Government grants (Note)	**14,739**	12,935
Sales of scrap materials	**45,929**	3,351
Gain on disposal of property, plant and equipment	**—**	915
Gain on disposal of available-for-sale investments	**8,480**	—
Gain on fair value change on held-for-trading investments	**—**	1,555
Others	**9,990**	2,304
	105,369	64,814

Note: The amount includes amortisation of deferred income of RMB4,098,000 (2008: RMB3,253,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

8b. OTHER GAINS AND LOSS

	2009 RMB´000	2008 RMB´000
Gain on repurchase of convertible bonds	–	107,941
Gain (loss) on derivative financial instrument	298,604	(385,799)
(Loss) gain on fair value change on convertible bonds	(438,382)	522,897
	(139,778)	245,039

9. FINANCE COSTS

	2009 RMB´000	2008 RMB´000
Interests on bank borrowings wholly repayable within five years	118,556	28,693
Less: amount capitalised	(18,724)	—
	99,832	28,693

10. TAXATION

	2009 RMB´000	2008 RMB´000
PRC Enterprise Income Tax		
- Current year	188,430	76,241
- Over(under)provision in prior years	6,480	(799)
- Other tax benefit	–	(17,841)
	194,910	57,601
Deferred tax (note 31)		
- Current year	5,363	14,067
- Attributable to a change in tax rate	–	163
	200,273	71,831

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. TAXATION *(Continued)*

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

Under the Law of the People´s Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to relevant laws and regulation in the PRC, certain subsidiaries in the PRC are exempted from PRC income tax for two years commencing from their first profit-making year, follow by a 50% reduction for the next three years.

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 2008 and 2009, respectively. The approval was obtained before the year ended 31 December 2007 for Nanjing High Speed and 31 December 2008 for Nanjing Marine.

Nanjing High Accurate and Nanjing Gaote Gear Box Manufacturing Co., Ltd. ("Nanjing Gaote") are entitled to a 50% relief from the Enterprise Income Tax in both years.

The EIT Law imposes withholding tax upon the distribution of the profits earned by the PRC subsidiaries on or after 1 January 2008 to their overseas shareholders. Deferred tax liabilities of RMB29,895,000 (2008: RMB12,695,000) has been recognised in the consolidated financial statements in respect of the temporary differences attributable to such undistributed profits.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

10. TAXATION *(Continued)*

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

	2009 RMB´000	2008 RMB´000
Profit before taxation	**1,166,051**	764,483
Tax at income tax rate of 25% (2008: 25%)	**291,513**	191,121
Income taxed at concessionary rate and tax exemption	**(146,835)**	(73,187)
Tax effect of share of results of associates and jointly controlled entities	**(3,890)**	(2,460)
Tax effect of expenses not deductible for tax purposes	**219,049**	123,472
Tax effect of income not taxable for tax purposes	**(175,930)**	(168,506)
Tax effect of tax losses not recognised	**280**	7,407
Utilisation of tax losses previously not recognised	**(7,594)**	(234)
Over(under)provision in prior year	**6,480**	(799)
Other tax benefit (Note)	**–**	(17,841)
Change in opening net deferred tax balance resulting from an increase in applicable tax rate	**–**	163
Tax effect on undistributed earnings of the PRC´s subsidiaries	**17,200**	12,695
Tax charge for the year	**200,273**	71,831

Details of deferred taxation for the year are set out in note 31.

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 additions of equipment manufactured in the PRC up to 2008. 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.

Up to the year ended 31 December 2008, the total tax benefit approved by the tax authorities which the Group was entitled to was RMB24,080,000, of which an amount of RMB17,841,000 and RMB6,239,000 has been utilised to deduct the income tax for the years ended 31 December 2008 and 2007, respectively. No unused tax benefit carried forward at 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

11. PROFIT FOR THE YEAR

	2009 RMB´000	2008 RMB´000
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors´ emoluments (note 12)	389,034	312,405
Less: staff cost included in research and development costs	(32,879)	(24,664)
	356,155	287,741
Auditor´s remuneration	3,657	4,720
Allowance for inventories (included in cost of sales)	19,876	483
Amortisation of intangible assets (included in cost of sales)	22,677	15,569
Cost of inventories recognised as an expense	3,785,804	2,447,060
Depreciation of property, plant and equipment	193,497	145,185
Exchange loss, net (included in other expenses)	30,587	37,012
Loss (gain) on disposal of property, plant and equipment	1,394	(915)
Impairment loss on intangible assets	1,416	—
Impairment loss on trade receivables	15,475	2,236
Release of prepaid lease payments	4,492	2,732
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:

	2009 RMB´000	2008 RMB´000
Directors		
- fee	—	—
- salaries and other allowances	12,274	10,242
- retirement benefit plan contributions	318	318
Total emoluments	12,592	10,560

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

12. DIRECTORS' AND EMPLOYEES' EMOLUMENTS *(Continued)*

	2009				2008			
	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	–	2,247	53	2,300	—	1,847	53	1,900
Chen Yongdao	–	1,967	53	2,020	—	1,637	53	1,690
Lu Xun	–	1,967	53	2,020	—	1,637	53	1,690
Li Shengqiang	–	1,967	53	2,020	—	1,637	53	1,690
Liu Jianguo	–	1,967	53	2,020	—	1,637	53	1,690
Liao Enrong	–	1,967	53	2,020	—	1,637	53	1,690
Chen Shimin	–	100	–	100	—	100	—	100
Zhu Jun Sheng	–	40	–	40	—	40	—	40
Jiang Xihe	–	40	–	40	—	40	—	40
Zhang Wei	–	12	–	12	—	12	—	12
Zhu Kenming (Resigned on 24 November 2008)	–	–	–	–	—	12	—	12
Wang Qi (Resigned on 21 May 2008)	–	–	–	–	—	6	—	6
	–	12,274	318	12,592	—	10,242	318	10,560

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 2009 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

13. DIVIDENDS

	2009 RMB´000	2008 RMB´000
Dividends recognised as distribution during the year:		
Dividend of HK8 cents (equivalent to approximately RMB 7 cents) per ordinary share as the final dividend for 2007	–	87,568
Dividend of HK25 cents, equivalent to approximately RMB22 cents per ordinary share as the final dividend for 2008	274,367	—
	274,367	87,568

Final dividend for the year 2009 of HK30 cents, equivalent to approximately RMB26 cents, (2008: HK25 cents, equivalent to approximately RMB22 cents) per ordinary share amounting to an aggregate of RMB328,697,000 (2008: RMB274,367,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. EARNINGS PER SHARE

(a) Reported earnings per share

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

	2009 RMB´000	2008 RMB´000
Earnings		
Earnings for the purposes of basic earnings per share		
Profit for the year attributable to owners of the Company	**966,377**	692,415
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds (note)	**–**	(522,897)
Earnings for the purposes of diluted earnings per share	**966,377**	169,518

	2009 ´000	2008 ´000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,245,024**	1,245,000
Effect of dilutive potential ordinary shares:		
Share option	**7,476**	362
Convertible bonds	**–**	72,036
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,252,500**	1,317,398

Note: The fair value changes on convertible bonds of RMB522,897,000 was adjusted out of profit for the year ended 31 December 2008 in the calculation of diluted earnings per share to reflect the dilutive effect of full conversion of convertible bonds assuming conversion from the date of issue. In 2009, the computation of diluted earnings per share does not assume the conversion of the convertible bonds since their exercise would result in an increase in earnings per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

14. EARNINGS PER SHARE *(Continued)*

(b) Underlying earnings per share

For the purpose of assessing the performance of the core business of the Group, management of the Company is of the view that the profit for the year should be adjusted for other gain and loss and transaction costs related to convertible bonds and equity swap as detailed in notes 32 and 33 in the consolidated statement of comprehensive income in arriving at "adjusted profit attributable to owners of the Company". A reconciliation of the adjusted profit is as follows:

	2009 RMB´000	2008 RMB´000
Profit attributable to owners of the Company as shown in the consolidated statement of comprehensive income	**966,377**	692,415
Other gains and loss	**139,778**	(245,039)
Transaction cost on convertible bonds	**—**	34,935
Adjusted profit attributable to the owners of the Company	**1,106,155**	482,311

In the opinion of the directors, the number of shares remains unadjusted in arriving at the underlying earnings per share as below:

Earnings per share based on the adjusted profit attributable to the owners of the Company:		
- Basic (RMB)	0.89	0.39
- Diluted (RMB)	0.88	0.37

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Fixture and equipment	Transportation equipment	Construction in progress	Leasehold improvements	Software	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
COST								
At 1 January 2008	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
Additions	—	3,261	2,858	4,834	1,664,919	—	333	1,676,205
On acquisition of a subsidiary	—	1,152	311	542	29	—	—	2,034
Transfer	277,150	991,045	18,068	40,138	(1,326,401)	—	—	—
Disposals	—	(3,144)	(188)	(1,048)	—	—	—	(4,380)
At 31 December 2009	655,755	2,311,843	107,794	139,619	1,223,665	1,050	6,693	4,446,419
DEPRECIATION								
At 1 January 2008	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
Provided for the year	15,777	145,350	14,726	17,091	—	80	473	193,497
Eliminated on disposals	—	(1,314)	(144)	(926)	—	—	—	(2,384)
At 31 December 2009	53,291	439,358	48,969	53,693	—	1,050	5,372	601,733
CARRYING VALUES								
At 31 December 2009	602,464	1,872,485	58,825	85,926	1,223,665	—	1,321	3,844,686
At 31 December 2008	341,091	1,024,207	52,358	57,625	885,118	80	1,461	2,361,940

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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

	2009 RMB´000	2008 RMB´000
Medium-term land use rights in the PRC	**276,610**	247,381
Analysed for reporting purpose as:		
Current assets	**5,784**	5,125
Non-current assets	**270,826**	242,256
	276,610	247,381

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

17. GOODWILL

During the year ended 31 December 2009, the Group injected RMB50,000,000 into a company, Zhenjiang Tongzhou Propeller Co., Ltd. 鎮江同舟螺旋槳有限公司 ("Tongzhou") for 76.33% equity interest in Tongzhou. Tongzhou is engaged in the business of manufacturing and sales of propellers and it was a supplier to the Group prior to the capital injection. Please refer to note 36 for more details.

A goodwill of RMB12,091,000 was recognised in the consolidated statement of financial position as a result of the acquisition. For the purposes of impairment testing, goodwill with indefinite useful lives was allocated to cash generating unit that is engaged in the business of manufacturing and sales of propellers (the "Propellers CGU").

The recoverable amount of this unit has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by management covering a five- year period, and discount rate of 12.75% Other key assumptions for the value in use calculations relate to the estimation of cash inflows/ outflows which include budgeted sales and gross margin, such estimation is based on the unit's past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGU to exceed the aggregate recoverable amount of the Propeller CGU. As a result, the management determined that there are no impairment loss to be recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

18. INTANGIBLE ASSETS

	Development costs RMB'000
COST	
At 1 January 2008	68,722
Additions	21,926
At 31 December 2008	90,648
Additions	70,493
At 31 December 2009	161,141
AMORTISATION AND IMPAIRMENT	
At 1 January 2008	13,874
Charge for the year	15,569
At 31 December 2008	29,443
Charge for the year	22,677
Impairment loss recognised for the year	1,416
At 31 December 2009	53,536
CARRYING VALUES	
At 31 December 2009	107,605
At 31 December 2008	61,205

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. During the year ended 31 December 2009, an impairment loss of approximately RMB1,416,000 was recognised due to termination of the development project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

19. INTERESTS IN ASSOCIATES

	2009 RMB´000	2008 RMB´000
Cost of unlisted investments in associates	**24,000**	24,000
Share of post-acquisition results	**(3,611)**	(5,515)
	20,389	18,485

As at 31 December 2009 and 2008, 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 2009	2008	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 venture	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%**	40%	Manufacture and sales of wind power transmission equipment and its fittings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

19. INTERESTS IN ASSOCIATES *(Continued)*

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

	2009 RMB´000	2008 RMB´000
Total assets	**131,562**	124,260
Total liabilities	**(80,589)**	(78,037)
Net assets	**50,973**	46,223
Group's share of net assets of associates	**20,389**	18,485
Revenue	**59,085**	97,651
Profit (loss) for the year	**4,760**	(2,626)
Group's share of results of associates for the year	**1,904**	(1,051)

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	2009 RMB´000	2008 RMB´000
Cost of unlisted investments in jointly controlled entities	**558,620**	558,620
Share of post-acquisition results	**24,547**	10,892
	583,167	569,512

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

Included in the cost of investment in jointly controlled entities is goodwill of RMB17,920,000 arising on acquisition of a jointly controlled entity during the year ended 31 December 2008. The movement of goodwill is set out below.

	RMB'000
COST	
At 1 January 2008	—
Arising on acquisition of a jointly controlled entity	17,920
At 31 December 2008 and 2009	17,920

As at 31 December 2009 and 2008, the Group had interests in the following jointly controlled entities:

Name of entity	Form of business structure	Place of establishment/ principal place of operation	Class of share held	Proportion of nominal value of registered capital held by the Group	Proportion of voting power held	Principal activity
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%	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 the joint venture agreement, Jiangsu Hongsheng is jointly controlled by the Group and the other party because the financial and operating decisions relating to the activity of Jiangsu Hongsheng require the unanimous consent of the Group and the other party sharing the control. Therefore, Jiangsu Hongsheng is classified as a jointly controlled entity of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

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

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:

	2009 RMB'000	2008 RMB'000
Current assets	**378,529**	441,669
Non-current assets	**423,093**	368,016
Current liabilities	**190,408**	209,959
Non-current liabilities	**45,967**	48,134
Income recognised in profit or loss	**492,699**	394,896
Expense recognised in profit or loss	**479,044**	384,495

21. AVAILABLE-FOR-SALE INVESTMENTS

	2009 RMB'000	2008 RMB'000
Equity securities listed in the PRC	**–**	4,598
Unlisted debt securities	**–**	20,500
Unlisted equity securities	**62,500**	30,350
	62,500	55,448
Analysed for reporting purpose as:		
Current assets	**–**	20,500
Non-current assets	**62,500**	34,948
	62,500	55,448

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

21. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

The unlisted debt securities carried variable interest based on return on underlying government bonds and bills and discounted bank bills. The principal amounts were guaranteed and in some cases might be early redeemed by the Group at principal amount with interest. The maturity date was 4 January 2009. In the opinion of the directors, the fair values of the unlisted debt securities at the end of reporting period 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 the end of the reporting period 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.

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

Balance as at 31 December 2008 represented deposit for land lease with total consideration of approximately RMB144 million which has been fully paid. During the year ended 31 December 2009, deposit for land use right with the amount of approximately RMB42 million has been refunded upon the termination of the land lease prepayment and approximately RMB2 million of land use right has been transferred to the Group. The remaining RMB100 million deposit related to the acquisition of a land lease situated in the PRC and the transfer is subject to the approval of the PRC government. In 2009, RMB7 million has been paid during the current year for a new land lease.

For prepayment for acquisition of property, plant and equipment, capital commitment of the remaining payment was disclosed in note 38.

23. INVENTORIES

	2009 RMB´000	2008 RMB´000
Raw materials	**367,353**	299,280
Work in progress	**693,343**	879,740
Finished goods	**252,114**	156,654
	1,312,810	1,335,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. TRADE AND OTHER RECEIVABLES

	2009 RMB´000	2008 RMB´000
Notes receivable	424,940	388,274
Accounts receivable	1,516,501	222,275
Bills receivable	375,000	391,666
Less: allowance for doubtful debts	(49,250)	(33,775)
Total trade receivables	2,267,191	968,440
Advances to suppliers	255,299	277,302
Value added tax recoverable	13,653	29,628
Others	77,117	18,876
Total trade and other receivables	2,613,260	1,294,246

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

	2009 RMB´000	2008 RMB´000
0 - 90 days	1,657,578	849,611
91 - 120 days	148,121	47,207
121 - 180 days	94,501	17,350
181 - 365 days	131,791	24,632
Over 365 days	235,200	29,640
	2,267,191	968,440

The trade receivable balances of RMB1,900,200,000 (2008: RMB914,168,000) are neither past due nor impaired at the end of the reporting period for which the Group has not provided for impairment loss since they are mainly the customers with good quality. No impairment loss was made on advance to suppliers since they are with good credit quality.

Included in the Group´s trade receivable balances are debtors with aggregate carrying amount of RMB366,991,000 (2008: RMB54,272,000) which are past due at the end of the reporting period 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

24. TRADE AND OTHER RECEIVABLES *(Continued)*

Ageing of trade receivables which are past due but not impaired

	2009 RMB´000	2008 RMB´000
181 - 365 days	**131,791**	24,632
Over 365 days	**235,200**	29,640
Total	**366,991**	54,272

Movement in the allowance for doubtful debts

	2009 RMB´000	2008 RMB´000
Balance at beginning of the year	**33,775**	31,539
Impairment losses recognised on receivables	**15,475**	2,236
Balance at end of the year	**49,250**	33,775

Included in the allowance for doubtful debts are individually impaired trade receivables with an aggregate balance of RMB49,250,000 (2008: RMB33,775,000) 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 to these receivables. At 31 December 2009, the carrying amount of the bills discounted is RMB375,000,000 (2008: RMB391,666,000). The carrying amount of the associated liability which represented the cash received from discounted notes (see note 30) is RMB375,000,000 (2008: RMB391,666,000).

25. 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.

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For the year ended 31 December 2009

26. AMOUNT DUE FROM/TO A JOINTLY CONTROLLED ENTITY

The amount due from a jointly controlled entity 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.

The amount due to a jointly controlled entity relates to trade balance with Nanjing Construction and aged within 120 days. The amount is unsecured, interest-free and repayable within 180 days.

27. AMOUNT DUE FROM (TO) A RELATED PARTY

Name of related party	Relationship	2009 RMB'000	2008 RMB'000
Nanjing Yuhuatai District Saihong Bridge Street Office ("Nanjing Yuhuatai")	Holding company of a minority shareholder of Nanjing High Accurate	(531)	900

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

28. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances carry interest at prevailing market deposit rates which range from 1% to 3% (2008: 2.05% to 6.68%) per annum. The pledged bank deposits carry fixed interest rate of 3% (2008: 3%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

29. TRADE AND OTHER PAYABLES

	2009 RMB'000	2008 RMB'000
Accounts payable	506,112	562,879
Notes payable (Note)	300,459	572,875
Total trade payables	806,571	1,135,754
Advances from customers	395,015	679,694
Purchase of property, plant and equipment	214,217	139,048
Payroll and welfare payables	69,754	49,738
Accrued expenses	9,400	4,542
Value added tax payable	38,460	7,020
Others	32,641	33,144
	1,566,058	2,048,940

Note: Notes payable are secured by the Group´s own assets as set out in note 39.

The following is an aged analysis of trade payables at the end of the reporting period:

	2009 RMB'000	2008 RMB'000
0 - 30 days	675,963	984,310
31- 60 days	83,986	69,915
61 - 180 days	29,449	55,851
181 - 365 days	9,127	15,417
Over 365 days	8,046	10,261
	806,571	1,135,754

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. BORROWINGS

	2009 RMB'000	2008 RMB'000
Secured:		
Bank loans	**2,193,314**	968,846
Bills discounted with recourse	**375,000**	391,666
	2,568,314	1,360,512
Carrying amount repayable:		
On demand or within one year	**1,556,273**	1,292,166
More than one year, but not exceeding two years	**1,012,041**	68,346
	2,568,314	1,360,512
Less: Amounts due within one year shown under current liabilities	**(1,556,273)**	(1,292,166)
Amounts due over one year	**1,012,041**	68,346

The Group's borrowings include RMB1,235,314,000 (2008: RMB1,104,793,000) fixed-rate borrowings and RMB1,333,000,000 (2008: RMB255,719,000) variable-rate borrowings which carry interest rates based on the rate of People's Bank of China Prescribed Interest Rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

30. BORROWINGS *(Continued)*

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

	2009 %	2008 %
Fixed-rate borrowings	**3.51 - 7.97**	4.86 - 6.12
Variable-rate borrowings	**4.86 - 5.76**	5.31 - 6.93

As at 31 December 2009, the Group´s borrowings that are denominated in currencies other than RMB (the functional currency of relevant group entities) are HKD14,917,000, EUR5,204,000 and USD6,000,000, which are equivalent to RMB13,231,000, RMB50,972,000 and RMB40,991,000, respectively (2008: USD10,000,000, which is equivalent to RMB68,346,000). All other bank borrowings are denominated in RMB.

As at 31 December 2009, the Group had loan facilities from banks of RMB8,334 million (2008: RMB2,909 million), of which RMB5,766 million (2008: RMB1,548 million) was not yet drawn down. Among the undrawn loan facilities at 31 December 2009, RMB5,496 million and RMB270 million will mature in 2010 and 2011, respectively.

The bank borrowings at the end of the reporting period were secured by pledged bank deposits of RMB451,389,000 (2008: RMB502,696,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

31. DEFERRED TAX

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

	Doubtful debts allowance	Inventories allowance	Capitalisation of research and development	Revaluation on investment	Withholding tax	Deferred income	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	(4,846)	(3,437)	10,346	1,878	—	—	3,941
Effect of change in tax rate	662	254	(753)	—	—	—	163
Charge (credit) to profit or loss	660	803	1,189	—	12,695	(1,280)	14,067
Credit to other comprehensive income	—	—	—	(1,418)	—	—	(1,418)
At 31 December 2008	(3,524)	(2,380)	10,782	460	12,695	(1,280)	16,753
Charge (credit) to profit or loss	(3,150)	(2,891)	8,074	—	17,200	(13,870)	5,363
Credit to other comprehensive income	—	—	—	(460)	—	—	(460)
At 31 December 2009	**(6,674)**	**(5,271)**	**18,856**	**–**	**29,895**	**(15,150)**	**21,656**

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:

	2009	2008
	RMB'000	RMB'000
Deferred tax assets	(27,095)	(7,184)
Deferred tax liabilities	48,751	23,937
	21,656	16,753

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

31. DEFERRED TAX *(Continued)*

At 31 December 2009, the Group has unused tax losses of RMB138,000 (2008: RMB29,394,000) 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. The unused tax losses that can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits.

Under the EIT Law of the PRC, starting from 1 January 2008, 10% withholding income tax is 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

32. CONVERTIBLE BONDS

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds with an aggregate principal amount of RMB1,996.3 million. The convertible bonds are convertible at the option of bond holders into fully paid shares with a par value of US$0.01 each of the Company at a conversion price of HK$17.78 per share, which was subsequently adjusted to HK$17.2886 as a result of the payment of final dividend for 2007 and 2008 during the year as required according to the conditions of the convertible bonds 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 by paying cash to the bondholders, the convertible bonds are regarded as financial liabilities with embedded derivatives for the conversion and redemption options and the entire convertible bonds were designated as financial liabilities at FVTPL.

The movement of convertible bonds for 2008 and 2009 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 changes on convertible bonds	(522,897)
As at 31 December 2008	931,550
Conversion of convertible bonds	(983)
Loss on fair value changes on convertible bonds	438,382
	1,368,949

During the year ended 31 December 2008, the Group has repurchased convertible bonds with an aggregate principal amount of RMB848.2 million, for a total consideration of RMB526.9 million.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

32. CONVERTIBLE BONDS *(Continued)*

During the year ended 31 December 2009, 64,497 ordinary shares of US$0.01 each of the Company were issued upon conversion of convertible bonds with an aggregate principal amount of RMB1,000,000 (equivalent to HK$1,115,076) at the conversion price of HK$17.2886 in August 2009.

At 31 December 2009, the principal amount payable at maturity is RMB1,147,100,000 (2008: RMB1,148,100,000).

The fair value of the 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:

	31 December 2009	31 December 2008
Exercise price	**HK$17.2886**	HK$17.78
Risk-free rate of interest	**0.39%**	0.66%
Dividend yield	**1.32%**	0.85%
Time to expiration	**1.37 years**	2.37 years
Volatility	**81.94%**	72.48%
Borrowing rate of issuer	**16.65%**	19.33%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

33. DERIVATIVE FINANCIAL INSTRUMENT/RESTRICTED CASH

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds as disclosed in note 32, 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 upon occurrence of certain early termination events.

During the year ended 31 December 2009, the Company has early terminated the Equity Swap in respect of 68,758,000 shares out of total 81,370,707 shares, equivalent to 84.5% of the Equity Swap.

The partial termination of the Equity Swap was settled at RMB50 million which was determined by reference to the difference between the market share price at the date of partial early termination and initial price.

The fair values of the derivative financial instrument outstanding at the end of the respective reporting periods are measured using Black-Scholes 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 Black-Scholes Option Pricing Model at the respective valuation dates are as follows:

	31 December 2009	31 December 2008
Initial price	**HK$13.68**	HK$13.68
Risk-free rate of interest	**0.39%**	0.66%
Dividend yield	**1.32%**	0.85%
Time to expiration	**1.37 years**	2.41 years
Volatility	**81.94%**	72.48%

As the derivative financial instrument will be matured on 14 May 2011, it is classified as non-current assets and liability in 2009 and 2008, respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

34. DEFERRED INCOME

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

35. 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, 2008, 31 December 2008 and 2009	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2008, 31 December 2008 and 1 January 2009	1,245,000	12,450	94,629
Conversion of convertible bonds (Note)	64	—	4
At 31 December 2008 and 2009	1,245,064	12,450	94,633

Note: During the year ended 31 December 2009, 64,497 ordinary shares of the Company of US$0.01 each were issued upon conversion of convertible bonds with an aggregate principal amount of RMB1,000,000 (equivalent to HK$1,115,076) at the conversion price of HK$17.2886 in August 2009. The shares issued rank pari passu with the then existing shares in all respects.

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36. ACQUISITION OF A SUBSIDIARY

On 24 September 2009, the Group injected RMB50,000,000 into Tongzhou for 76.33% equity interest in Tongzhou. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was RMB12,091,000 (note 17).

The directors consider that the carrying amount of the net assets acquired in the transaction is approximate to the fair value, and the goodwill arising, are as follows:

	Acquiree's carrying amount before combination HK$'000
Net assets acquired:	
Property, plant and equipment	2,034
Inventories	8,528
Trade and other receivables	5,234
Bank balances and cash	51,019
Trade and other payables	(15,146)
Tax liabilities	(4)
Borrowings	(2,000)
	49,665
Minority interests	(11,756)
Goodwill	12,091
	50,000
Total consideration satisfied by:	
Cash	50,000
Net cash inflow arising on acquisition:	
Cash consideration paid	(50,000)
Bank balances and cash acquired	51,019
	1,019

36. ACQUISITION OF A SUBSIDIARY *(Continued)*

Tongzhou contributed RMB1.6 million to the Group's profit for the period between the date of acquisition and the end of the reporting period.

If the acquisition had been completed on 1 January 2009, total group revenue for the year would have been RMB5.7 billion, and the profit for the year would have been RMB967.4 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2009, nor is it intended to be a projection of future results.

37. 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 participants, 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

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For the year ended 31 December 2009

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

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, without prior approval from the Company's shareholders to refresh the said limit to 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 and 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 10th anniversary of the date of grant. The exercise price is determined by the directors of the Company, and must be at least the higher of (i) the closing price of the Company's shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share.

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

Date of grant	Exercise price HK$	Exercisable period	Outstanding at 1.1.2008	Granted during the year	Outstanding and exercisable at 31.12.2008 and 31.12.2009
6 November 2008	5.6	6.11.2008 to 6.11.2013	—	12,000,000	12,000,000

The estimated fair value of the options on the date of grant is RMB30,030,000 and has been fully recognised in the employee benefit expenses in profit or loss for the year ended 31 December 2008.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

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	5 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.

38. CAPITAL COMMITMENTS

	2009 RMB'000	2008 RMB'000
Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements	**666,806**	1,656,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. PLEDGE OF ASSETS

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

	2009 RMB'000	2008 RMB'000
Bank deposits	**451,389**	502,696

40. OPERATING LEASES

Minimum lease payments paid under operating lease during the year:

	2009 RMB'000	2008 RMB'000
Leasehold land	**4,001**	2,166

At the end of the reporting period, the Group had outstanding commitments payable under non-cancellable operating lease in respect of leasehold land which fall due as follows:

	2009 RMB'000	2008 RMB'000
Within one year	**3,041**	2,166
In the second to fifth year inclusive	**12,165**	6,517
After five years	**42,292**	44,368
	57,498	53,051

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

41. 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 profit or loss during the year were RMB57,121,000 (2008: RMB32,941,000). All the contributions had been paid over to the scheme as at the end of the reporting period.

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For the year ended 31 December 2009

42. 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	2009 RMB'000	2008 RMB'000
Nanjing Longwin	Associate	Purchase of goods	18,200	—
ZF Nanjing	Associate	Sales of goods	31,135	44,776
		Rental income	1,218	1,186
		Other income	175	248
Nanjing Yuhuatai	Holding company of minority shareholder of a subsidiary	Rental expenses	1,431	574
Jiangsu Hongsheng	Jointly controlled entity	Sales of goods	54,628	20,459
		Purchase of goods	41,414	25,450
Nanjing Construction	Jointly controlled entity	Sales of goods	11,237	—
		Purchase of goods	6,351	—
		Rental income	180	—
		Other income	39	—

(II) Related party balance

Details of the Group´s outstanding balances with related parties are set out on the consolidated statement of financial position and in notes 25, 26 and 27.

(III) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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43. FINANCIAL INFORMATION OF THE COMPANY

	Note	2009 *RMB'000*	2008 *RMB'000*
Total assets		**3,792,773**	4,201,890
Total liabilities		**(1,373,018)**	(1,364,911)
		2,419,755	2,836,979
Capital and reserves			
Share capital		**94,633**	94,629
Reserves	(i)	**2,325,122**	2,742,350
		2,419,755	2,836,979

Note:

(i) Reserves

	Share premium RMB'000	Deemed capital distribution reserve RMB'000	Retained profits (accumulated losses) RMB'000	Total RMB'000
At 1 January 2008	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
Loss for the year	—	—	(143,840)	(143,840)
Dividend paid	—	—	(274,367)	(274,367)
Conversion of convertible bonds	979	—	—	979
At 31 December 2009	2,373,863	77,651	(126,392)	2,325,122

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

44. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

Details of the Company's subsidiaries at 31 December 2009 and 2008 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Attributable equity interest held by the Company				Principal activities
			Direct		Indirect		
			2009 %	2008 %	2009 %	2008 %	
Nanjing High Accurate[3] 南京高精齒輪集團有限公司	PRC 16 August 2001	RMB553,500,000	–	—	100	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	RMB90,000,000	–	—	100	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	85.83	Engineering processing and manufacturing
Ningjiang Gaote[3] 南京高特齒輪箱製造有限公司	PRC 26 November 2003	US$42,393,264	–	—	100	100	Sales of gear, gear box and fittings
Nanjing Dongalloy[2] 南京寧嘉機電有限公司	PRC 26 September 1994	RMB5,317,125	–	—	100	100	Sales of gear and its fittings
Yongte[2] 南京永特齒輪箱製造有限公司	PRC 30 July 1990	RMB70,000,000	–	—	100	100	Manufacture of gear, gear box and its fittings
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	–	—	87.24	87.24	Property management

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

44. 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 2009 %	Direct 2008 %	Indirect 2009 %	Indirect 2008 %	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	100	Inactive
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	100	Engineering processing and manufacturing
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.[1] 南京高精傳動設備製造集團有限公司	PRC 27 March 2007	USD237,500,000	–	–	100	100	Manufacture and sales of gear box and fittings
Nanjing Zhongchuan Shipping Drive Equipment Co., Ltd.[3] 南京中傳船舶設備有限公司	PRC 10 June 2008	RMB33,300,000	–	–	100	100	Manufacture and sales of shipping drive equipment
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.[2] 北京中傳首高冶金成套設備有限公司	PRC 25 April 2008	RMB30,000,000	–	–	51	100	Metallurgical engineering and manufacturing

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

44. 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				Principal activities
			Direct		Indirect		
			2009 %	2008 %	2009 %	2008 %	
Nanjing High Accurate Heavy Duty Gear Manufacturing Co., Ltd.(2) 南京高精重載齒輪製造有限公司 Formerly known as Nanjing Yongfa Shipping Drive Equipment Co., Ltd. 南京永發船舶設備製造有限公司)	PRC 30 April 2008	RMB40,300,000	–	—	100	100	Manufacture and sales of shipping drive equipment
Nanjing Gaochuan Electrical & Mechanical Autocontrol Equipment Co., Ltd.(2)(4) 南京高傳機電自動控製設備有限公司	PRC 22 October 2009	RMB260,000,000	–	N/A	100	N/A	Manufacturing and sales gear box and fittings
Tongzhou(2) 鎮江同舟螺旋槳有限公司	PRC 24 November 2005	RMB50,000,000	–	N/A	76.33	N/A	Manufacturing and sales of propellers
Goodgain Group Limited	British Virgin Islands ("BVI") 22 March 2005	USD100	100	100	–	—	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2009

44. 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				Principal activities
			Direct		Indirect		
			2009 %	2008 %	2009 %	2008 %	
Eagle Nice Holdings Limited	BVI 22 March 2005	USD100	100	100	–	—	Inactive
China Transmission Holdings Limited 中傳控股有限公司	Hong Kong 7 November 2007	HK$100	–	—	100	100	Investment holding
Century Well Holdings Limited 英威集團有限公司	Hong Kong 9 January 2008	HK$100	–	—	100	100	Inactive
NGC Transmission Equipment (America) Inc.	USA 7 August 2008	USD1,500,000	–	—	100	100	Sales of gear and its fitting

Notes:

(1) wholly-foreign owned enterprise established in the PRC
(2) domestic enterprise established in the PRC
(3) sino-foreign owned enterprise established in the PRC
(4) these subsidiaries were established/incorporated during the year

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				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Revenue	946,686	1,184,307	1,904,816	3,439,220	**5,647,045**
Profit for the year	99,337	90,228	306,444	692,652	**965,778**

	As at 31 December				
	2005	2006	2007	2008	**2009**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	1,442,149	2,222,583	4,785,580	8,477,856	**10,234,919**
Total liabilities	(1,258,158)	(1,691,355)	(1,677,713)	(4,743,211)	**(5,784,567)**
	183,991	531,228	3,107,867	3,734,645	**4,450,352**
Attributable to:					
Equity owners of the Company	133,768	526,999	3,104,545	3,731,086	**4,420,937**
Minority interests	50,223	4,229	3,322	3,559	**29,415**
	183,991	531,228	3,107,867	3,734,645	**4,450,352**

Note: The financial information for each of the years ended 31 December 2005 and 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 year ended 31 December 2005 and 2006, and the assets and liabilities as at 31 December 2005 and 2006 have been extracted from the Company's prospectus dated 20 June 2007.