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)**

# Announcement
# Results for the year ended 31 December 2007

## PERFORMANCE HIGHLIGHTS

Revenue for 2007 was RMB1,904,816,000, representing an increase of 60.8% as compared with last year.

Profit attributable to equity holders of the Company for 2007 was approximately RMB306,693,000, representing an increase of 258.1% as compared with last year.

Basic earnings per share amounted to RMB0.29.

The Board recommended payment of a final dividend of HK8 cents per share for the year ended 31 December 2007.

The board of directors (the "Board") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2007 together with comparative figures as follows. The consolidated annual results have been reviewed by the Company's audit committee.

## CONSOLIDATED INCOME STATEMENT

*For the year ended 31 December 2007*

| | NOTE | **2007** | 2006 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| Revenue | 3 | **1,904,816** | 1,184,307 |
| Cost of sales | | **(1,351,751)** | (843,544) |
| Gross profit | | **553,065** | 340,763 |
| Other income | | **192,308** | 23,301 |
| Distribution costs | | **(79,320)** | (55,690) |
| Administrative expenses | | **(282,210)** | (137,489) |
| Research and development costs | | **(22,850)** | (14,660) |
| Finance costs | 4 | **(33,017)** | (41,536) |
| Share of loss of an associate | | **(3,628)** | (836) |
| Loss on changes in fair value of convertible bonds | | **—** | (20,111) |
| Profit before tax | | **324,348** | 93,742 |
| Income tax expense | 5 | **(17,904)** | (3,514) |
| Profit for the year | 6 | **306,444** | 90,228 |
| Attributable to: | | | |
| Equity holders of the parent | | **306,693** | 85,648 |
| Minority interests | | **(249)** | 4,580 |
| | | **306,444** | 90,228 |
| Dividends | 7 | **34,789** | 86,000 |
| Earnings per share - basic (RMB) | 8 | **0.29** | 0.14 |

## CONSOLIDATED BALANCE SHEET

*As at 31 December 2007*

| | NOTES | **2007** | 2006 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | **1,405,364** | 866,835 |
| Prepaid lease payments | | **49,893** | 20,291 |
| Intangible assets | | **54,848** | 29,877 |
| Goodwill | | **—** | — |
| Interest in an associate | | **7,536** | 11,164 |
| Available-for-sale investments | | **14,703** | 1,350 |
| Deposit paid for acquisition of prepaid lease payments | | **114,210** | 22,060 |
| Deposits paid for acquisition of property, plant and equipment | | **95,880** | — |
| Deferred tax assets | | **8,283** | 1,495 |
| | | **1,750,717** | 953,072 |
| **CURRENT ASSETS** | | | |
| Inventories | | **646,107** | 347,509 |
| Prepaid lease payments | | **1,226** | 305 |
| Available-for-sale investments | | **43,000** | — |
| Trade and other receivables | 9 | **638,497** | 530,242 |
| Amount due from an associate | | **10,906** | — |
| Amounts due from related parties | | **1,716** | 2,578 |
| Pledged bank deposits | | **177,265** | 192,779 |
| Bank balances and cash | | **1,516,146** | 196,098 |
| | | **3,034,863** | 1,269,511 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 10 | **1,156,074** | 777,028 |
| Amounts due to related parties | | **—** | 11,127 |
| Tax liabilities | | **15,557** | 3,840 |
| Bank borrowings - due within one year | 11 | **420,818** | 612,615 |
| | | **1,592,449** | 1,404,610 |
| **NET CURRENT ASSETS (LIABILITIES)** | | **1,442,414** | (135,099) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,193,131** | 817,973 |
| **NON-CURRENT LIABILITIES** | | | |
| Bank borrowings - due after one year | 11 | **73,040** | 284,586 |
| Deferred tax liabilities | | **12,224** | 2,159 |
| | | **85,264** | 286,745 |
| | | **3,107,867** | 531,228 |

| | NOTES | 2007 | 2006 |
|---|---|---|---|
| | | **RMB'000** | RMB'000 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 12 | **94,629** | 12 |
| Reserves | | **3,009,916** | 526,987 |
| Equity attributable to equity holders of the parent | | **3,104,545** | 526,999 |
| Minority interests | | **3,322** | 4,229 |
| | | **3,107,867** | 531,228 |

*Notes*

**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 with effect from 4 July 2007.

**2. Application of new and revised International Financial Reporting Standards ("IFRSs")**

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations ("new IFRSs") issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are effective for the Group's financial year beginning 1 January 2007.

| | |
|---|---|
| IAS 1 (Amendment) | Capital Disclosures |
| IFRS 7 | Financial Instruments: Disclosures |
| IFRIC 7 | Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies |
| IFRIC 8 | Scope of IFRS 2 |
| IFRIC 9 | Reassessment of Embedded Derivatives |
| IFRIC 10 | Interim Financial Reporting and Impairment |

The adoption of these new IFRSs had no material effect on how the results or financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has applied the disclosure requirements under IAS 1 (Amendment) and IFRS 7 retrospectively. Certain information presented in prior year under the requirements of IAS 32 has been removed and the relevant comparative information based on the requirements of IAS 1 (Amendment) and IFRS 7 has been presented for the first time in the current year.

The Group has not early applied the following new and revised standards or interpretations that have been issued as at the date of this announcement but are not yet effective.

| | |
|---|---|
| IAS 1 (Revised) | Presentation of Financial Statements[1] |
| IAS 23 (Revised) | Borrowing Costs[1] |
| IAS 27 (Revised) | Consolidated and Separate Financial Statements[2] |
| IAS 32 & IAS1 (Amendment) | Putable Financial Concernments and Obligations Arising on Liquidation[1] |
| IFRS 2 | Share-based payment (Amendments relating to vesting condition and cancellations)[1] |
| IFRS 3 (Revised) | Business Combinations[2] |
| IFRS 8 | Operating Segments[1] |
| IFRIC - INT 11 | IFRS 2: Group and Treasury Share Transactions[3] |
| IFRIC - INT 12 | Service Concession Arrangements[4] |
| IFRIC - INT 13 | Customer Loyalty Programmes[5] |
| IFRIC - INT 14 | IAS 19: The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4] |

[1] Effective for annual periods beginning on or after 1 January 2009

[2] Effective for annual periods beginning on or after 1 July 2009

[3] Effective for annual periods beginning on or after 1 March 2007

[4] Effective for annual periods beginning on or after 1 January 2008

[5] Effective for annual periods beginning on or after 1 July 2008

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group, except for the adoption of IFRS 3 (revised) which may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions.

## 3. Revenue and segmental information

Revenue represents the net amounts received and receivable for goods sold, net of sales taxes and return, for the year. The Group's operation is regarded as a single segment, being the production and sale of gear products.

*Primary report segment - geographical segments*

The Group primarily operates in PRC, sales are made to PRC customers as well as customers in overseas. The Group's sales by geographical locations of customer are determined by the final destination to which the products are delivered irrespective of the origin of the goods:

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Turnover | | |
| - PRC | **1,590,587** | 1,046,204 |
| - Non-PRC | **314,229** | 138,103 |
| | **1,904,816** | 1,184,307 |
| Segment result | | |
| - PRC | **402,801** | 260,943 |
| - Non-PRC | **79,166** | 33,243 |
| | **481,967** | 294,186 |
| Other income | **184,086** | 14,188 |
| Finance costs | **(33,017)** | (41,536) |
| Share of loss on an associate | **(3,628)** | (836) |
| Loss on changes in fair value of convertible bonds | **—** | (20,111) |
| Unallocated expenses | **(305,060)** | (152,149) |
| Profit before taxation | **324,348** | 93,742 |
| Taxation | **(17,904)** | (3,514) |
| Profit for the year | **306,444** | 90,228 |
| **Assets and liabilities** | | |
| Segment assets | | |
| - PRC | **376,542** | 407,032 |
| - Non-PRC | **64,811** | 72,177 |
| | **441,353** | 479,209 |
| Unallocated assets | **4,344,227** | 1,742,374 |
| Consolidated total assets | **4,785,580** | 2,221,583 |

In the opinion of the directors, it is not practicable and meaningful to separate all the cost and expenses for each geographical segment except certain direct cost of sales and certain directly attributable selling and distribution expenses. In addition, except for trade receivables from the customers in the respective segment, the remaining consolidated total assets and the entire consolidated total liabilities are presented as unallocated.

No geographical segment for other information is disclosed as additions of property, plant and equipment and intangible assets are substantially in the PRC. No carrying amount of segment assets by geographical location of the assets is disclosed as all of the production facilities of the Group are located in the PRC.

**4. Finance costs**

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Interests on bank borrowings wholly repayable within five years | **47,139** | 36,440 |
| Interest on convertible bonds | **—** | 11,918 |
| Less: amounts capitalised | **(14,122)** | (6,822) |
| | **33,017** | 41,536 |

Borrowing cost capitialised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.07% (2006: 6.64%) to expenditure on qualifying assets.

**5. Income tax expense**

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| PRC enterprise income tax | | |
| - Current year | **23,527** | 15,134 |
| - Underprovision in respect of prior year | **(783)** | 572 |
| - Other tax benefit | **(6,239)** | (13,279) |
| | **16,505** | 2,427 |
| Deferred tax | **1,399** | 1,087 |
| | **17,904** | 3,514 |

PRC enterprise income tax is calculated at the tax rates prevailing under the relevant laws and regulations in the PRC.

Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("NGC") is an advanced technology enterprise and is established in Nanjing Economic Technology Industry Development Zone, Jiangsu Province. The applicable income tax rate for NGC is 15%. Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("Nanjing Dongalloy") and Nanjing Gaote Gear Box Manufacturing Co., Ltd. (formerly known as Nanjing Ninjiang Gear Box Manufacturing Co., Ltd.) ("Gaote") are also advanced technology enterprises. Nanjing High Speed and Gaote are located in Jiangning Science Park while Nanjing Dongalloy is located in Nanjing New & High Technology Industry Development Zone. The applicable income tax rate is 15%.

All other subsidiaries of the Group are subject to an income tax rate of 33%.

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises ("FEIT"), certain subsidiaries in the PRC are entitled to exemption from PRC Enterprise Income Tax for two years commencing from their first profit making year of operation and thereafter, they are entitled to a 50% relief from the PRC Enterprise Income Tax for the following three years. The local income tax of 3% was exempted during the tax holiday.

During the year, NGC and Gaote are entitled to 2 years' exemption (2006: exempted) while Nanjing Dongally and Nanjing High Speed are entitled to 50% relief (2006: exempted) from enterprise income tax.

On 16 March 2007, the Standing Committee of the National People's Congress promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate to 25% for all the Company's PRC subsidiaries from 1 January 2008. According to the Circular of the State Council on the Implementation of Transitional Preferential Policies for Enterprise Income Tax (Guofa [2007] No. 39), those entities that previously enjoyed preferential tax treatment would be granted a five-year transitional period. The tax exemption and deduction from FEIT for the foreign investment enterprises is still applicable until the end of the five-year transitional period under the New Law. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

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

## 6. Profit for the year

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Profit for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | **4,250** | 4,523 |
| Allowance for inventories | **4,216** | 4,253 |
| Amortisation of intangible assets (included in administrative expenses) | **9,312** | 3,527 |
| Cost of inventory recognised as expense | **1,347,535** | 839,291 |
| Depreciation of property, plant and equipment | **84,011** | 57,078 |
| Expenses relating to listing of shares (included in administrative expenses) | **24,840** | — |
| Exchange loss (included in administrative expenses) | **54,296** | — |
| Loss on disposal of property, plant and equipment | **4,753** | 843 |
| Loss on disposal of intangible asset | **1,225** | — |
| Impairment loss on trade and other receivables | **3,484** | 4,957 |
| Impairment of goodwill (included in administrative expenses) | **—** | 306 |
| Release of prepaid lease payments | **1,069** | 305 |
| Interest Income arising from subscription monies in relation to global offering of the Company's shares (included in other income) | **(119,811)** | — |
| Bank Interest income | **(49,932)** | (4,176) |

## 7. Dividends

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Dividend of US$40.565, equivalent to RMB313.97 per ordinary share as the final dividend for 2006 | **34,789** | — |
| Dividend paid by NGC to their shareholders (note) | **—** | 86,000 |
| | **34,789** | 86,000 |

The final dividend of HK8 cents (2006: Nil) per share has been proposed by the directors and is subject to approval by the shareholders in general meeting.

Note: The dividend paid in 2006 represented dividends paid by NGC according to the profit attributable to the former shareholders prior to the reorganisation as disclosed in the prospectus dated 20 June 2007.

## 8. Earnings per share

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company is based on the following data:

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Earnings** | | |
| Earnings for the purposes of basic earnings per share | **306,693** | 85,648 |

| | **2007** | 2006 |
|---|---|---|
| | **'000** | '000 |
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purposes of basic earnings per share | **1,066,151** | 610,242 |

The weighted average number of ordinary shares for the purposes of basic earnings per share has been adjusted assuming that the share capitalisation occurred as at 1 January 2006.

No diluted earnings per share is presented for the year ended 31 December 2007 as there was no potential dilutive shares in issue.

No diluted earnings per share is presented for the year ended 31 December 2006 because the conversion of convertible bonds would result in an increase in earnings per share.

## 9. Trade and other receivables

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Notes receivable | **165,707** | 204,183 |
| Accounts receivables | **307,185** | 303,081 |
| Less: allowance for doubtful debts | **(31,539)** | (28,055) |
| Total trade receivables | **441,353** | 479,209 |
| Advances to suppliers | **157,230** | 37,921 |
| Value added tax recoverable | **24,609** | 1,785 |
| Others | **15,305** | 11,327 |
| Total trade and other receivables | **638,497** | 530,242 |

The Group generally allows an average 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:

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 0 - 90 days | **350,997** | 318,458 |
| 91 - 120 days | **11,422** | 49,877 |
| 121 - 180 days | **15,990** | 60,647 |
| 181 - 365 days | **46,783** | 35,121 |
| Over 365 days | **16,161** | 15,106 |
| | **441,353** | 479,209 |

The trade receivable balance are neither past due nor impaired at the reporting date for which the Group has not provided for impairment loss since they are mainly customers with good quality.

It is the Group's policy to make provision against debts which are past due. However, included in the Group's trade receivable balance are debtors with aggregate carrying amount of RMB62,944,000 (2006: RMB50,227,000) which are past due at the reporting date for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable as there are continuing subsequent settlement. The Group does not hold any collateral over these balances.

Ageing of trade receivables which are past due but not impaired

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| 181 - 365 days | **46,783** | 35,121 |
| over 365 days | **16,161** | 15,106 |
| Total | **62,944** | 50,227 |

Movement in the allowance for doubtful debts

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Balance at beginning of the year | **28,055** | 23,225 |
| Impairment losses recognised | **3,484** | 4,830 |
| Balance at end of the year | **31,539** | 28,055 |

## 10. Trade and other payables

| | 2007 | 2006 |
|---|---|---|
| | RMB'000 | RMB'000 |
| Notes payable (note) | 313,232 | 296,775 |
| Account payables | 285,416 | 188,672 |
| Total trade payables | 598,648 | 485,447 |
| Advances from customers | 423,592 | 210,484 |
| Purchase of property, plant and equipment | 76,052 | 35,515 |
| Payroll and welfare payables | 23,524 | 17,506 |
| Accrued expenses | 4,319 | 4,608 |
| Value added tax payable | 5,276 | 4,909 |
| Others | 24,663 | 18,559 |
| | 1,156,074 | 777,028 |

*Note:* Notes payable are secured by the Group's own assets.

The following is an aged analysis of trade payables at the balance sheet date:

| | 2007 | 2006 |
|---|---|---|
| | RMB'000 | RMB'000 |
| 0 - 30 days | 492,355 | 165,429 |
| 31 - 60 days | 57,283 | 88,207 |
| 61 - 180 days | 25,533 | 215,504 |
| 181 - 365 days | 11,782 | 8,376 |
| Over 365 days | 11,695 | 7,931 |
| | 598,648 | 485,447 |

The average credit period on purchases of goods is 60 days. The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

## 11. Bank borrowings

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| The maturity profile of the unsecured bank borrowings is as follows: | | |
| Within one year | **420,818** | 612,615 |
| More than one year, but not exceeding two years | **73,040** | 50,000 |
| More than two years, but not exceeding three years | **—** | 180,000 |
| More than three years, but not exceeding four years | **—** | — |
| More than four years, but not exceeding five years | **—** | 54,586 |
| | **493,858** | 897,201 |
| Less: Amount due within one year shown under current liabilities | **(420,818)** | (612,615) |
| Amount due over one year | **73,040** | 284,586 |

As at 31 December 2007, the Group's borrowings that are denominated in currencies other than RMB (the functional currency) are US$67,609,000 (2006: US$7,000,000). All other bank borrowings are denominated in RMB.

The average effective interest rates (which are also equal to contracted interest rates) on the Group were as follows:

| | **2007** | 2006 |
|---|---|---|
| | **%** | % |
| Fixed-rate borrowings | **6.4319** | 6.3769 |

As at 31 December 2007, the Group had the banking facilities of RMB1,578,000,000 (2006: RMB1,159,000,000), of which RMB1,317,000,000 (2006: RMB262,000,000) was not utilised. Among the undrawn banking facilities, RMB1,080,000,000 and RMB157,000,000 and RMB80,000,000 will mature in 2008, 2009 and 2010 respectively.

## 12. Share capital

| | | Number of shares (in thousand) | Amount US$'000 | Equivalent to RMB'000 |
|---|---|---|---|---|
| **Ordinary of US$0.01 each** | | | | |
| **Authorised:** | | | | |
| At 1 January 2006 and 31 December 2006 | | 90,000 | 900 | 7,053 |
| Increase in authorised share capital | (i) | 2,910,000 | 29,100 | 226,980 |
| At 31 December 2007 | | 3,000,000 | 30,000 | 234,033 |
| **Issued and fully paid:** | | | | |
| At 1 January 2006 | | 100 | 1 | 8 |
| Issue of shares on 11 August 2006 | (ii) | 7 | — | 1 |
| Issue of shares on conversion of convertible bonds | (iii) | 38 | — | 3 |
| At 31 December 2006 | | 145 | 1 | 12 |
| Issued of new shares | (iv) | 8 | — | — |
| Allotment upon capitalisation | (v) | 899,847 | 8,999 | 68,395 |
| Issue by global offering | (vi) | 345,000 | 3,450 | 26,222 |
| At 31 December 2007 | | 1,245,000 | 12,450 | 94,629 |

*Notes:*

(i) Pursuant to the written resolutions passed by the members of the Company on 8 June 2007, the authorised share capital of the Company was increased from USD900,000 to USD30,000,000 (equivalent to approximately RMB234,033,000) by the creation of additional 2,910,000,000 ordinary shares of US$0.01 each.

(ii) On 11 August 2006, 6,793 shares of US$0.01 each were allotted and issued at a total consideration of US$1,390,000.

(iii) On 22 December 2006, the Company issued 38,523 ordinary shares of US$0.01 each upon the conversion of convertible bonds.

(iv) On 9 February 2007, GE Capital Equity Investments Ltd. ("GE Capital") entered into a share subscription agreement with the Company pursuant to which GE Capital agreed to subscribe for 7,648 ordinary shares of the Company at an aggregate consideration of US$8,500,000, equivalent to RMB64,311,000. The shares issued rank pari passu in all respects with the then existing shares.

(v) On 4 July 2007, the Company allotted and issued 899,847,036 ordinary shares of US$0.01 each as fully paid to the then shareholders by the capitalisation of an amount of US$8,998,470 (equivalent to approximately RMB68,395,000) in the share premium account of the Company.

(vi) On 4 July 2007, the Company issued a total of 300,000,000 ordinary shares of US$0.01 each at the price of HK$7.08 per share by means of global offering. On 5 July 2007, the Company issued additional 45,000,000 ordinary shares of US$0.01 each at the price of HK$7.08 per share by means of full exercise of the over-allotment option.

## 13. Capital commitments

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Commitments for the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **942,344** | 256,587 |

## 14. Pledge of assets

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

| | **2007** | 2006 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Notes receivable | **—** | 4,250 |
| Bank deposits | **177,265** | 192,779 |
| | **177,265** | 197,029 |

## 15. 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 | 2007 RMB'000 | 2006 RMB'000 |
|---|---|---|---|---|
| ZF Nanjing Marine Propulsion Co., Ltd. | Associate | Sales of goods | **10,714** | — |
| | | Rental income | **853** | — |
| | | other income | **136** | — |
| Goldwind Science & Technology Co., Ltd. ("Goldwind") | Minority shareholder of a subsidiary (note) | Sales of goods | **—** | 188,381 |
| Tianjin Xiandao Machinery and Electronics Co., Ltd. | Minority shareholder of a subsidiary | Purchase of materials | **—** | 688 |
| Nanjing Yuhuatai District Saihong Bridge Street Office | Holding company of minority shareholder of NGC | Rental expenses | **907** | 1,800 |

*Note:* Goldwind has ceased to be the minority shareholder of the subsidiary of the Company since 30 December 2006.

*(II) Related party balances*

Amounts due from related parties as at 31 December 2007 are unsecured, non-interest bearing and repayable on demand.

*(III) Acquisition of subsidiaries*

During the year ended 31 December 2006, the Group acquired the additional equity interests of certain subsidiaries from Nanjing Lianxin Venture Capital Co. Ltd., common beneficial shareholder (former shareholder of NGC), for a total consideration of RMB8,140,000.

During the year ended 31 December 2007, the Group acquired the additional equity interests of a subsidiary, Nanjing High Speed & Accurate Gear (Shenyang) Sales Co. Ltd. ("Shenyang Sales Co.") from 高衛忠 (former minority shareholder of Shenyang Sales Co.) for a total consideration of RMB1,250,000.

*(IV) Disposal of a subsidiary*

On 3 January 2006, the Group disposed its entire equity interest of Nanjing Jingyuan Investment Co., Ltd. to Nanjing High Speed Gear Industrial Development Co., Ltd., common beneficial holder (former shareholder of NGC), and Lianxin, for a cash consideration of RMB20,000,000.

*(V) 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, the Group did not have any other significant compensation to key management personnel.

## 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 2007, the Group recorded revenue of RMB1,904,816,000, representing a substantial increase of 60.8% over 2006; profit attributable to equity holders of the Company was RMB306,693,000, representing a significant increase of 258.1% over last year. The gross profit margin recorded for the year was 29.0%. During the period, the net profit recorded by the Group was far more than the profit forecast of not less than RMB180,000,000 made by the Company in the prospectus dated 20 June 2007.

As at 31 December 2007, the basic earnings per share attributable to the ordinary equity holders of the Company amounted to RMB0.29, based on profits attributable to equity holders of the Company during the period, with adjustments made for the effect of the capitalisation issue as at 31 December 2007.

### PRINCIPAL BUSINESS REVIEW

### TRADITIONAL GEAR TRANSMISSION EQUIPMENT BUSINESS

Our traditional gear transmission equipment products are provided for customers from industries including metallurgy, construction materials, traffics, transportation, petrochemicals, aerospace and mining. During the year, sales revenue of high-speed series gear transmission equipment, gear transmission equipment for construction materials, general purpose gear transmission equipment, gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills and other mechanical transmission equipment increased by 62.8%, 85.3%, 3.5%, 1.5% and 0.6% to RMB28,846,000 (2006: RMB17,714,000), RMB362,235,000 (2006: RMB195,434,000), RMB143,995,000 (2006: RMB139,184,000), RMB293,498,000 (2006: RMB289,163,000) and RMB223,226,000 (2006:RMB221,901,000) respectively.

## WIND AND MARINE GEAR TRANSMISSION EQUIPMENT BUSINESS

The wind and marine gear transmission equipment is a new major product that has been developed by the Company in recent years. During the year, the Company continued to be a leading supplier of mechanical transmission equipment for wind turbines in the PRC. With an increasing awareness of environmental protection in the PRC, the strong demand for sustainable renewable energy brought by national economic growth and the implementation of proactive policies by the PRC government to develop renewable and clean energy, the development of renewable energy such as wind power has been advocated and supported. As such, sales revenue of wind gear transmission equipment business surged approximately by 125.8% to RMB717,370,000 (2006: RMB317,743,000) as compared with last year, and capacity was 1,300 MW (2006: 500 MW). The increase was mainly attributable to the proactive policies and measures adopted by the PRC government to encourage the use of renewable energy and green power generation. For example, the Renewable Energy Law of the PRC promulgated in 2006 introduces various supporting measures to promote the development and use of renewable energy including wind power.

In May 2006, the Group entered into an agreement with GE Energy for the supply of wind gear transmission equipment for its wind turbines. During the year, sales revenue in the US market through sales to GE Energy increased. At the same time, the 2MW series wind gear transmission equipment manufactured by the Group for Fuji Heavy Industries Ltd. was exported in May 2007.

In respect of the marine gear transmission equipment business, all sales were generated from overseas orders. Upon the commencement of operations of ZF Nanjing Marine Propulsion Co., Ltd., the joint venture between the Group and ZF (China) Investment Co., Ltd. ("ZF China") which is principally engaged in the development, manufacture and sale of marine gear transmission equipment, prior to the third quarter of 2007, turnover of marine gear transmission equipment increased by 42 times to RMB135,646,000.

## GEAR TRANSMISSION EQUIPMENT BUSINESS FOR LIGHT RAILS AND HIGH-SPEED RAILS

During the year, the Group continuously endeavoured to upgrade the production technology and enhance the customer base of gear transmission equipment used for light rails and high-speed rails. Accordingly, in April 2007, the Group entered into a development support service agreement with one of the worldwide leading railway infrastructure technical service providers, ALSTOM Group, for the provision of technical assistance and expertise to the Group in relation to the design and development of mechanical transmission equipment for light rails and high-speed rails.

## LOCAL AND EXPORT SALES

During the year, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. However, with the efforts put in by Group companies to expand our businesses in overseas markets, overseas sales amounted to approximately RMB314,229,000, accounting for 16.5% of total sales and representing an increase of 4.8% over last year. At present, the customer base for exports of the Company extends to the US, India, Japan and Europe etc. During the year, increase in export sales was principally due to the increase in exports of gear transmission equipment for wind turbines and marine gear transmission equipment.

## PATENTED PROJECTS

The business of the Group is of high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging on its advanced technology and premium quality, the Company has obtained 92 national, provincial and municipal technology advancement awards. 22 of our products have been recognised as high-technology products and nearly 30 products have obtained or are pending patent approval. The Company was the first producer to adopt ISO1328 and ISO06336 international standards. We were nominated as a enterprise for the 863 State Plan and a CIMS Application Model Enterprise. During the year 2007, the Company has passed ISO14001:2004 environmental management system certification and BV statutory certification of ships issued by Bureau Veritas; the branches of its welding plants have passed CCS of the PRC, RL of Britain, GL of Germany, as well as BV statutory certification of ships in France.

## FINANCIAL PERFORMANCE

In the financial year of 2007, 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 60.8% to RMB1,904,816,000.

| | **Revenue** | |
|---|---|---|
| | **Year ended 31 December** | |
| | **2007** | 2006 |
| | **RMB'000** | RMB'000 |
| High-speed Series Gear Transmission Equipment | **28,846** | 17,714 |
| Gear Transmission Equipment for Construction Materials | **362,235** | 195,434 |
| General Purpose Gear Transmission Equipment | **143,995** | 139,184 |
| Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills | **293,498** | 289,163 |
| Wind Gear Transmission Equipment | **717,370** | 317,743 |
| Marine Gear Transmission Equipment | **135,646** | 3,168 |
| Others | **223,226** | 221,901 |
| | **1,904,816** | 1,184,307 |

## REVENUE

The Group's revenue during the period under review was approximately RMB1,904,816,000, an increase of approximately 60.8% as compared with last year. Such increase was mainly due to the continued growth in our sales volume during the period under review. In particular, this was mainly attributable to an increase of 125.8% in sales revenue of wind power generation gear transmission equipment from approximately RMB317,743,000 for the year ended 31 December 2006 to RMB717,370,000 for the year ended 31 December 2007, a substantial increase of 42 times in sales revenue of marine gear transmission equipment from approximately RMB3,168,000 for the year ended 31 December 2006 to RMB135,646,000 for the year ended 31 December 2007 and increases of 85.3% and 1.5% in gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills from approximately RMB195,434,000 and approximately RMB289,163,000 for the year ended 31 December 2006 to approximately RMB362,235,000 and approximately RMB293,498,000 for the year ended 31 December 2007 respectively.

## GROSS PROFIT MARGIN AND GROSS PROFIT

The Group's consolidated gross profit margin increased slightly during the period under review due to a change in the product sales structure. Consolidated gross profit for the year ended 31 December 2007 reached approximately RMB553,065,000 (2006: RMB340,763,000), an increase of 62.3% as compared with last year. This was mainly attributable to increased sales of wind power generation gear transmission equipment and marine gear transmission equipment.

## OTHER INCOME

The other income of the Group during the year ended 31 December 2007 was about RMB192,308,000 (2006: RMB23,301,000), an increase of 725.3% as compared with last year.

The other income is mainly comprised of part of the interest income on proceeds from listing, sales of scrap metal and government subsidies.

## DISTRIBUTION COSTS

The distribution costs of the Group for the year ended 31 December 2007 were approximately RMB79,320,000 (2006: RMB55,690,000), representing an increase of 42.4% over last year. The increase was mainly attributable to increased sales revenue. However, the percentage of distribution costs to sales revenue for the year ended 31 December 2007 was 4.2% (2006: 4.7%), representing a decrease of 0.5% over last year. This was mainly attributable to a decrease in some sales expenses such as marketing expenses and salaries of sales personnel as a result of strong market demand for wind power generation gear transmission equipment.

## ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased from approximately RMB137,489,000 in 2006 to approximately RMB282,210,000, mainly due to the increase in number of staff and staff costs, and the expenses incurred for the initial public offering of the Company's shares during the period under review. During the period under review, the Group recorded a net losses of foreign exchange of RMB54,296,000.

## FINANCE COSTS

Throughout 2007, finance costs of the Group were RMB33,017,000 (2006: RMB41,536,000), a decrease as compared with last year due to the fact that some of the bank loans were settled during the year and interests payment was no longer required as a result of the conversion of all convertible bonds in 2006.

## FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2007, the equity attributable to equity holders of the Company amounted to RMB3,104,545,000 (2006: RMB526,999,000). The Group had total assets of RMB4,785,580,000 (2006: RMB2,222,583,000), an increase of RMB2,562,997,000, or 115.3%, as compared with that at the beginning of the year. Total current assets of the Group were RMB3,034,863,000, representing an increase of 139.1% as compared with 31 December 2006 and accounting for 63.4% of total assets. Total non-current assets were RMB1,750,717,000 (2006: RMB953,072,000), representing an increase of RMB797,645,000 and accounting for 36.6% of the total assets.

As at 31 December 2007, total liabilities of the Group were RMB1,677,713,000 (2006: RMB1,691,355,000), which represented a decrease of 0.8% as compared with that at the beginning of the year. Total current liabilities were RMB1,592,449,000 (2006: RMB1,404,610,000), representing an increase of RMB187,839,000 as compared with that at the beginning of the year whereas total non-current liabilities were RMB85,264,000 (2006: RMB286,745,000), representing a decrease of RMB201,481,000 as compared with that at the beginning of the year.

The Group shifted from its total net current liabilities of RMB135,099,000 as at 31 December 2006 to total net current assets of RMB1,442,414,000 as at 31 December 2007.

As at 31 December 2007, the cash and bank balances of the Group was RMB1,693,411,000 (2006: RMB388,877,000).

As at 31 December 2007, the Group had total bank loans of approximately RMB493,858,000 (2006: RMB897,201,000), of which short-term bank loans were approximately RMB420,818,000 (2006: RMB612,615,000), accounting for approximately 85.2% of the total bank loans. The short-term bank loans are repayable within one year. The Group's short-term bank loans bear fixed interest rates and the average effective interest rate is 6.4319%.

Following the share offer on 4 July 2007, the Group recorded a net cash inflow from the share offer of approximately HK$2.4 billion. The directors believe that the Group will have a sound and strong financial position as well as sufficient resources for meeting its working capital requirements and foreseeable capital expenditure.

## GEARING RATIO

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) reduced from 76.1% in 2006 to 35.1% in 2007.

## CAPITAL STRUCTURE

On 8 February 2007, the Company issued 7,648 ordinary shares of par value of US$0.01 each to GE Capital at an aggregate consideration of US$8,500,000.

The Group's loans were mainly denominated in U.S. dollars. As at 31 December 2007, the currency units of the Group's cash and cash equivalents were approximately 58.3% in Australian dollars, 37.0% in Renminbi and 4.7% in total in U.S. dollars, Euros and Hong Kong dollars.

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.

## PROSPECTS

Looking forward, the Company will leverage on its cooperation with General Energy Company and other international partners to explore more overseas markets including rapid-developing countries such as India. In the long run, we look forward to increasing the overseas sales to 50% of the total sales.

The Company will focus on the research and development activities in relation to the wind gear transmission equipment business and further expand the joint development and manufacture of 1.5MW wind gear transmission equipment with General Energy Company. It also starts to develop wind gear transmission equipment of 2.5MW and 3MW. The Group will continue to raise its research and development capability, and improve the technological level of its existing production lines to achieve higher operation efficiency. This will enable the Group to offer more transmission equipment products that may be applied in various industries, consolidate its position and increase its market share in the global market. Besides, the Company will strive to increase the production capacity of wind power generation equipment to 3,500MW in 2008.

There are approximately 1,000 mechanical transmission equipment manufacturers of various scales in the PRC. Mechanical transmission equipment could be widely applied in various industries and is one of the important components in the manufacture of wind turbine generators. In light of global shortage of energy supply and increased awareness of environmental protection, wind power generation has been regarded as one of the most significant technologies to cope with the global shortage of energy resources. Also, the development of renewable energy is a significant measure to maintain energy safety in China. It will hence gradually become a major source of energy consumption in the PRC with substantially increased installed capacity. The rich wind power resources and proactive policies of the government may help China become one of the largest wind power generation markets. For instance, the Renewable Energy Law was promulgated in 2005 and implemented in 2006 and a series of preferential policies (such as tax and on-grid tariff concessions) in relation to wind power generation were promulgated recently. A promising market prospect is thus created.Some of the relatively new 2MW to 5MW generation units still operate with multi-layer gearbox transmission technology and continue to be in the mainstream of wind power generation business. The Company believes that its market share will increase steadily in the years to come.

With the rapid growth of urban population in China, the public transportation system can no longer catch up with the demand caused by population growth. The nationwide rail transportation infrastructure in China has entered into an era of rapid development. As of 2015, China will invest approximately USD750 million to build a 1,600 km urban light rail, the passenger capacity of which will be a record high.

The 2008 Beijing Olympics and 2010 Shanghai World Expo, which attract worldwide attention, will also facilitate the modernisation of China's urban transport.

The Company has carried out research of such market for many years. With our strong research and development and production capacity, we believe that we can utilise the growing market demand for rail transmission equipment. In April 2007, we entered into a development support service agreement with ALSTOM Group to develop mechanical transmission equipment used in light rails and high-speed rails.

In respect of marine transmission equipment, the Company and ZF China cooperated to develop transmission equipment for large vessels and hydraulic paddle (CPP paddle), which were mainly exported to overseas markets.

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

The Company aims at exploring upstream business as its long-term development. It plans to invest in production facilities for manufacturing raw materials of certain major spares (such as forged steels and cast iron products) through joint ventures or other approaches in order to reduce reliance on suppliers and focus on our upstream supply chains to maximise our economies of scale.

## OTHER SUPPLEMENTARY INFORMATION

### Final dividend and closure of register members

During the year, a final dividend of USD40.565 (equivalent to approximately RMB313.97) per share (2006: nil) for 2006 has been paid to shareholders.

The Board has recommended payment of a final dividend of HK8 cents per share for the year ended 31 December 2007 to be paid on 11 July 2008 to shareholders whose names appear on the register of members of the Company on 20 June 2008 subject to shareholders' approval. The register of members of the Company will be closed from Monday 16 June 2008 to Friday 20 June 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the final dividend, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday 13 June 2008.

## EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

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

The Group's bank borrowing denominated in U.S. dollars as at 31 December 2007 was US$67,609,000. Besides, as the proceeds from the global offering of the Group on 4 July 2007 were received in Hong Kong dollars, the Group may be exposed to foreign exchange risks.

The net losses of foreign exchange recorded by the Group for the year was RMB54,296,000, which was due to the appreciation of Renminbi against major foreign currencies in 2007. 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 2008.

## INTEREST RATE RISK

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

## EMPLOYEES

As at 31 December 2007, the Group employed approximately 2,856 employees (2006: 2,241). Staff cost of the Group for 2007 approximated to RMB242,225,000 (2006: RMB149,368,000). The cost included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan, etc. The salary levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial performance. In addition to salaries, the Group provides housing allowances to some of its employees. The Group also offers incentive programmes to encourage its employees to take initiatives and rewards employees who have made valuable contributions or achieved technical breakthroughs. The Group's employees are rewarded for their creativity achievements in technologies and technical skills, management of information, product quality and enterprise management. The Group has adopted incentive programmes to encourage employee performance and a range of training programmes for the development of its staff.

## MATERIAL ACQUISITION AND DISPOSAL

Other than the reorganisation as disclosed in the prospectus dated 20 June 2007 of the Company, during the period under review, there was no material acquisition or disposal of subsidiaries and associated companies.

## CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") since the listing date 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 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, all directors have confirmed that they have complied with the required standard set out in the Model Code since the listing date.

## PURCHASE, REDEMPTION OR SALE OF LISTED SHARES

As at 31 December 2007, neither the Company nor any of its subsidiaries has purchased, redeemed or cancelled any of the Company's listed securities.

## SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated balance sheet, consolidated income statement and the related notes thereto for the year ended 31 December 2007 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

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

Hong Kong, 21 April 2008

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

* *For identification purposes only*