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 2009

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.

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 2009 together with comparative figures as follows. The consolidated annual results have been reviewed by the Company's audit committee.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2009

	NOTES	**2009**	**2008**
		RMB'000	*RMB'000*
Revenue	3	5,647,045	3,439,220
Cost of sales		(3,785,804)	(2,447,060)
Gross profit		1,861,241	992,160
Other income	4a	105,369	64,814
Other gains and loss	4b	(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	5	(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	6	(200,273)	(71,831)
Profit for the year	7	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

	NOTES	2009	2008
		RMB'000	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)	9(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)	9(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		3,844,686	2,361,940
Prepaid lease payments		270,826	242,256
Goodwill		12,091	—
Intangible assets		107,605	61,205
Interests in associates		20,389	18,485
Interests in jointly controlled entities		583,167	569,512
Available-for-sale investments		62,500	34,948
Deposit for land lease		107,300	144,300
Prepayment for acquisition of property, plant and equipment		105,911	176,870
Deferred tax assets		27,095	7,184
Derivative financial instrument	14	55,991	—
		5,197,561	3,616,700
CURRENT ASSETS			
Inventories		1,312,810	1,335,674
Prepaid lease payments		5,784	5,125
Available-for-sale investments		—	20,500
Trade and other receivables	10	2,613,260	1,294,246
Amount due from an associate		23,928	24,026
Amount due from a jointly controlled entity		7,090	14,780
Amount due from a related party		—	900
Pledged bank deposits	17	451,389	502,696
Restricted cash	14	151,904	981,566
Bank balances and cash		471,193	681,643
		5,037,358	4,861,156

	NOTES	2009	2008
		RMB'000	RMB'000
CURRENT LIABILITIES			
Trade and other payables	11	1,566,058	2,048,940
Amount due to a related party		531	—
Amount due to a jointly controlled entity		23,568	—
Tax liabilities		141,689	53,648
Borrowings - due within one year	12	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	12	1,012,041	68,346
Deferred tax liabilities		48,751	23,937
Financial liabilities designated as at fair value through profit or loss - convertible bonds	13	1,368,949	931,550
Derivative financial instrument	14	—	292,794
Deferred income		66,707	31,830
		2,496,448	1,348,457
		4,450,352	3,734,645
CAPITAL AND RESERVES			
Share capital	15	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

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 (the "Stock Exchange") with effect from 4 July 2007.

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.

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 3) 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.

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.

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. 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 People's Republic of China ("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.

Segment revenue and results

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

	2009	2008
	RMB'000	*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

Segment profit represents the gross profit (including depreciation of production plants), government grants, sales of scrap material and distribution and selling expenses earned/incurred by each segment. The remaining items in the profit or loss are disclosed as unallocated expense.

Segment assets

	2009	2008
	RMB'000	*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.

Other segment information

2009

	PRC	Europe	Others	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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	Europe	Others	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*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

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	Year ended 31 December 2008
	RMB'000	*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.

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.

4a. 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 RMB4,908,000 (2008: RMB3,253,000).

4b. OTHER GAINS AND LOSS

	2009	**2008**
	RMB'000	*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

5. FINANCE COSTS

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

6. TAXATION

	2009	**2008**
	RMB'000	*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		
- Current year	5,363	14,067
- Attributable to a change in tax rate	—	163
	200,273	71,831

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.

NGC and Nanjing Gaote Gear Box Manufacturing Co., Ltd. ("Nanjing Gaote") are entitled to a 50% relief from the Foreign 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.

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

	2009	**2008**
	RMB'000	*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

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.

7. PROFIT FOR THE YEAR

	2009	**2008**
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors' emoluments	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

8. DIVIDENDS

	2009	2008
	RMB'000	*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: RMB274,357,000) has been proposed by the directors and is subject to approval by the shareholders in the forthcoming annual general meeting.

9. 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	2008
	RMB'000	*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	2008
	'000	*'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.

(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 13 and 14 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	2008
	RMB'000	*RMB'000*
Profit attributable to owners of the Company as shown in the consolidated statement of comprehensive income	966,377	692,415
Other gain 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:

	2009	2008
Earnings per share based on the adjusted profit attributable to the Company's owners:		
- Basic (RMB)	0.89	0.39
- Diluted (RMB)	0.88	0.37

10. TRADE AND OTHER RECEIVABLES

	2009	2008
	RMB'000	*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	2008
	RMB'000	*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.

Ageing of trade receivables which are past due but not impaired

	2009	2008
	RMB'000	*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	2008
	RMB'000	*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 12) is RMB375,000,000 (2008: RMB391,666,000).

11. TRADE AND OTHER PAYABLES

	2009	2008
	RMB'000	*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 17.

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

	2009	2008
	RMB'000	*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.

12. BORROWINGS

	2009	2008
	RMB'000	*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) fixed-rate borrowings and RMB1,333,000,000 (2008: RMB255,719,000) variable-rate borrowings which carry interest rates based on the rates of People's Bank of China Prescribed Interest Rate.

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).

13. 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 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 fair value through profit or loss .

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.

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%

14. DERIVATIVE FINANCIAL INSTRUMENT/RESTRICTED CASH

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

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 earl termination and initial price.

The fair values of the derivative financial instrument outstanding at the end of the respective reporting period 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.

15. 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.

16. CAPITAL COMMITMENTS

	2009	2008
	RMB'000	*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

17. 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	2008
	RMB'000	*RMB'000*
Bank deposits	451,389	502,696

18. 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	2008
			RMB'000	*RMB'000*
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd	Associate	Purchase of goods	18,200	—
ZF Nanjing Marine Propulsion Co., Ltd	Associate	Sales of goods	31,135	44,776
		Rental income	1,218	1,186
		Other income	175	248
Nanjing Yuhuatai District Saihong Bridge Street Office	Holding company of minority shareholder of a subsidiary	Rental expenses	1,431	574
Jiangsu Hongsheng Heavy Industries Group Co., Ltd	Jointly controlled entity	Sales of goods	54,628	20,459
		Purchase of goods	41,414	25,450
Nanjing High Accounte Construction Equipment Co., Ltd.	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.

(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, 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 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.

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.

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.

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	**2008**
	RMB'000	*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 for the year ended 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%.

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 approximately 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 approximately 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.

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 approximately 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 approximately 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 approximately 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.

CAPITAL STRUCTURE

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 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.

As at 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.

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 General Energy Company and other international partners, such as VESTAS, NORDEX and REPOWER, to explore more overseas markets including rapid-developing countries such as India. In the long run, we look forward to increasing overseas sales.

The Company will reinforce the research and development activities in relation to the wind gear transmission equipment business and further expand the 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.

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.

OTHER SUPPLEMENTARY INFORMATION

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.

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.

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 REMUNERATTON 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.

SIGNIFICANT INVESTMENT HELD

Nanjing High Accurate Drive Equipment Manufacturing Corporation Ltd. ("Nanjing Drive"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Mr. Ou Hongyuan and Ms. Shao Yanping (who are third parties independent of the Group and connected persons of the Group) on 30 June 2008, and agreed to contribute approximately RMB548,619,000 in Jiangsu Hongsheng Heavy Industries Group Co., Ltd. ("Jiangsu Hongsheng"). Upon completion of the capital contribution, Nanjing Drive is interested as to 50.01% in Jiangsu Hongsheng. 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 as at 31 December 2009.

MATERIAL ACQUISITION AND DISPOSAL

During the year, there was no material acquisition and 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") 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.

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.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2009 as set out in this 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 in this announcement.

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

Hong Kong, 16 April 2010

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 director is Mr. Zhang Wei; and the independent non-executive directors are Mr. Zhu Junsheng, Mr. Jiang Xihe and Mr. Chen Shimin.

* *For identification purposes only*