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RMB1,996,300,000



中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

**CHINA HIGH SPEED TRANSMISSION
EQUIPMENT GROUP CO., LTD.**

(incorporated in the Cayman Islands with limited liability)

USD SETTLED ZERO COUPON CONVERTIBLE BONDS DUE 2011

The USD Settled Zero Coupon Convertible Bonds due 2011 in the aggregate principal amount of RMB1,996,300,000 (the "Bonds") will be issued by China High Speed Transmission Equipment Group Co., Ltd. (the "Company" or the "Issuer"). Based on a face amount of RMB100,000, an issue price of 100% and an exchange rate of RMB6.9912 to US\$1.00, the subscription amount payable in respect of each Bond is US\$14,303.696.

Each Bond will, at the option of the holder, be convertible (unless previously redeemed, converted or purchased and cancelled) on or after 13 June 2008 up to the close of business on 30 April 2011 into fully paid ordinary shares with a par value of US\$0.01 each of the Company (the "Shares") at an initial conversion price of HK\$17.78 per Share with a fixed exchange rate of HK\$1.00 to RMB0.8968. The Conversion Price is subject to adjustment in the circumstances described under "Terms and Conditions of the Bonds—Conversion". The volume weighted average price of the Shares on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") on 22 April 2008 was HK\$13.678 per Share.

In connection with the issue of the Bonds, the Company entered into a cash settled equity swap transaction with Morgan Stanley & Co. International plc, in its capacity as swap counterparty, for Shares up to a value of HK\$1,113 million. See "Subscription and Sale—Equity Swap".

All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed (as defined in the Terms and Conditions of the Bonds) from or against the Company shall be payable and settled in US dollars only.

Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed on 14 May 2011 at an amount equal to the US Dollar Equivalent of their RMB principal amount multiplied by 109.3443%. At any time on or after 14 May 2010 and prior to 14 May 2011, the Company may, having given the requisite notice to the Bondholders, the Principal Agent and the Trustee, mandatorily convert all or some only of the Bonds into Shares provided that the closing price of the Shares translated into Renminbi at the Prevailing Rate applicable to the relevant Trading Day, for 20 out of 30 consecutive Trading Days, the last day of such 30 Trading Day period falling within five Trading Days prior to the date upon which notice of such conversion is given, was at least 120% of the applicable Early Redemption Amount in effect on such Trading Day divided by the Conversion Ratio. The Company may redeem all and not some only of the Bonds at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount on the redemption date if at any time at least 90% in principal amount of the Bonds has already been converted, redeemed or purchased and cancelled. The Bonds may also be redeemed at the option of the holders at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount upon the occurrence of a Relevant Event (including if the Shares cease to be listed on the Hong Kong Stock Exchange or the occurrence of a Change of Control). All and not some only of the Bonds may be redeemed at any time at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount in the event of certain changes relating to the Cayman Islands or Hong Kong taxation, subject to the non-redemption option of each Bondholder. See "Terms and Conditions of the Bonds—Redemption, Mandatory Conversion, Purchase and Cancellation". Capitalised terms used in this paragraph and not otherwise defined have the respective meaning given to such terms in the "Terms and Conditions of the Bonds".

Approval in-principle has been received for the listing of the Bonds on the Singapore Exchange Securities Trading Limited (the "SGX-ST"). The SGX-ST assumes no responsibility for the correctness of any statements made, opinions expressed or reports contained in this Offering Circular. Admission of the Bonds to the Official List of the SGX-ST is not to be taken as an indication of the merits of the Company or the Bonds. The Shares are listed on the Hong Kong Stock Exchange and application has been made to list the Shares to be issued upon conversion of the Bonds on the Hong Kong Stock Exchange.

Investing in the Bonds and the Shares involves certain risks. See "Risk Factors" beginning on page 11.

ISSUE PRICE 100%

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the United States Securities Act of 1933, as amended (the "Securities Act") and, subject to certain exceptions, may not be offered or sold within the United States. The Bonds are being offered and sold outside the United States in reliance on Regulation S of the Securities Act. For a description of these and certain further restrictions on offers and sales of the Bonds and the Shares to be issued upon conversion of the Bonds and the distribution of this Offering Circular, see "Subscription and Sale".

The Bonds will be represented by beneficial interests in a permanent global certificate (the "Global Certificate") in registered form, without coupons attached, which will be registered in the name of a nominee of, and shall be deposited on or about 14 May 2008 (the "Closing Date"), with a common depository for, Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream, Banking, société anonyme ("Clearstream, Luxembourg"). Beneficial interests in the Global Certificate will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, certificates for Bonds will not be issued in exchange for interests in the Global Certificate.

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The Company, having made all reasonable enquiries, confirms that (i) this Offering Circular contains all information with respect to the Company, the Company and its subsidiaries and affiliates taken as a whole (the “**Group**”) and to the Shares and the Bonds which is material in the context of the issue and offering of the Bonds; (ii) the statements contained in it relating to the Company and to the Group are true and accurate and not misleading; (iii) the opinions and intentions expressed in it with regard to the Company and to the Group are honestly held, have been reached after considering all relevant circumstances and will be based on reasonable assumptions; (iv) there are no other facts in relation to the Company, the Group, the Shares or the Bonds the omission of which would, in the context of the issue and offering of the Bonds make any statement in this Offering Circular misleading in any material respect nor has this Offering Circular omitted to state a material fact necessary in order to make the statements herein, in light of the circumstances under which they were made, not misleading; and (v) all reasonable enquiries will have been made by the Company to ascertain such facts and to verify the accuracy of all such information and statements.

This Offering Circular has been prepared by the Company solely for use in connection with the proposed offering of the Bonds described in this Offering Circular. The distribution of this Offering Circular and the offering of the Bonds in certain jurisdictions may be restricted by law. Persons into whose possession this Offering Circular comes are required by the Company and Morgan Stanley & Co. International plc (the “**Lead Manager**”) to inform themselves about and to observe any such restrictions. No action is being taken to permit a public offering of the Bonds or the Shares deliverable upon conversion of the Bonds or the distribution of this document in any jurisdiction where action would be required for such purposes. There are restrictions on the offer and sale of the Bonds and the Shares deliverable on conversion or redemption of the Bonds, and the circulation of documents relating thereto, in certain jurisdictions including the United States, the European Economic Area, the United Kingdom, Japan, Singapore and Hong Kong, and to persons connected therewith. For a description of certain further restrictions on offers, sales and resales of the Bonds and distribution of this Offering Circular, see “Subscription and Sale”.

No person has been or is authorised to give any information or to make any representation concerning the Company, the Group, the Company’s associates, the Bonds or the Shares other than as contained herein and, if given or made, any such other information or representation should not be relied upon as having been authorised by the Company, the Lead Manager, The Bank of New York (the “**Trustee**”) or the Agents (as defined in the Terms and Conditions of the Bonds). Neither the delivery of this document nor any offering, sale or delivery made in connection with the issue of the Bonds shall, under any circumstances, constitute a representation that there has been no change or development reasonably likely to involve a change in the affairs of the Company or the Group since the date hereof or create any implication that the information contained herein is correct as of any date subsequent to the date hereof. This Offering Circular does not constitute an offer of, or an invitation by or on behalf of the Company, the Lead Manager, the Trustee or the Agents to subscribe for or purchase any of the Bonds or Shares and may not be used for the purpose of an offer to, or a solicitation by, anyone in any jurisdiction or in any circumstances in which such offer or solicitation is not authorised or is unlawful.

No representation or warranty, express or implied, is made or given by the Lead Manager, the Trustee or the Agents as to the accuracy, completeness or sufficiency of the information contained in this Offering Circular, and nothing contained in this Offering Circular is, or shall be relied upon as, a promise, representation or warranty by the Lead Manager, the Trustee or the Agents. This Offering Circular is not intended to provide the basis of any credit or other evaluation nor should it be considered as a recommendation by the Company, the Lead Manager, the Trustee or the Agents that any recipient of this Offering Circular should purchase the Bonds. Each potential purchaser of the Bonds should determine for itself the relevance of the information contained in this Offering Circular and its purchase of the Bonds should be based upon such investigations with its own tax, legal and business advisers as it deems necessary.

IN CONNECTION WITH THE ISSUE OF THE BONDS, MORGAN STANLEY & CO. INTERNATIONAL PLC AS THE STABILISING MANAGER (THE “STABILISING MANAGER”) OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER MAY, SUBJECT TO ALL

APPLICABLE LAWS, EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE BONDS AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILISING MANAGER OR PERSONS ACTING ON BEHALF OF THE STABILISING MANAGER WILL UNDERTAKE ANY STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE BONDS IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, AND IN ANY EVENT WILL END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE BONDS AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE BONDS.

In making an investment decision, investors must rely on their own examination of the Company and the Group and the terms of the offering, including the merits and risks involved. See “Risk Factors” for a discussion of certain factors to be considered in connection with an investment in the Bonds.

Each person receiving this Offering Circular acknowledges that such person has not relied on the Lead Manager or any person affiliated with the Lead Manager in connection with its investigation of the accuracy of such information or its investment decision.

The Company has prepared audited consolidated financial statements as of and for the years ended 31 December 2005, 2006 and 2007. These financial statements were prepared in conformity with IFRS.

Unless otherwise specified or the context requires, references herein to “Hong Kong dollars”, “HK dollars”, “HK\$” and “HK¢” are to the lawful currency of Hong Kong, references herein to “US dollars”, “USD” or “US\$” are to the lawful currency of the United States of America, references herein to “Renminbi” or “RMB” are to the lawful currency of the PRC and references to “IFRS” are to International Financial Reporting Standards.

This Offering Circular contains translations of certain Renminbi amounts into US dollars, and vice versa, at specific rates solely for the convenience of the reader. For convenience only and unless otherwise noted, all translations between Renminbi and US dollars in this Offering Circular were made at the rate of RMB7.2946 to US\$1.00 as at 31 December 2007. No representation is made that the Renminbi or US dollar amounts referred to in this Offering Circular could have been or could be converted into US dollars or Renminbi at any particular rate or at all. For further information relating to exchange rates, see “Exchange Rates”.

In this Offering Circular, where information has been presented in thousands or millions of units, amounts may have been rounded up or down. Accordingly, totals of columns or rows of numbers in tables may not be equal to the apparent total of the individual items and actual numbers may differ from those contained herein due to rounding. References to information in billions of units are to the equivalent of a thousand million units.

INCORPORATION OF FINANCIAL INFORMATION

The audited consolidated financial statements of the Company for the years ended 31 December 2005 and 2006 and the auditor's report in respect of such financial years, which are contained in the prospectus of the Company dated 20 June 2007 in relation to its initial public offering, and the audited consolidated financial statements of the Company for the year ended 31 December 2007 and the auditor's report in respect of such financial year, which are contained in the Annual Report of the Company for the year ended 31 December 2007, are incorporated by reference in this Offering Circular. Copies of the accounts are available and may be (i) obtained free of charge at the specified office of the Company at 36th Floor, Far East Finance Centre, 16 Harcourt Road, Hong Kong or (ii) downloaded free of charge from the Hong Kong Stock Exchange's website on the internet at www.hkexnews.hk/index.htm.

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SUMMARY

This summary does not contain all the information that may be important to investors in deciding to invest in the Bonds. Investors should read the entire Offering Circular, including the section entitled "Risk Factors" and the financial statements and related notes thereto incorporated by reference, before making an investment decision.

Terms defined elsewhere in this Offering Circular shall have the same meaning when used in this summary.

Overview

The Group is one of the leading mechanical transmission equipment producers in the PRC with a history dating back to 1969. The Group is engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment used in a wide range of industrial applications including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining.

The Group was founded in 1969 and was formed as a result of the merger of the Second Machinery Maintenance Station of Nanjing and Nanjing Mechanic School. Nanjing Machinery Maintenance Factory changed its name to Nanjing High Speed Gear Factory in 1975 and in 2001 transferred all of its mechanical transmission equipment manufacturing related assets into a newly formed joint stock company, NGC in which it held a 73.68% interest. In March 2005, the Company was incorporated in the Cayman Islands to become the holding company of the Group. The Company acquired 91% interest in NGC in 2005 and the remaining 9% interest in NGC in 2006, turning it into a wholly owned subsidiary.

The Group sells its products in the PRC and also exports its products to overseas markets including the U.S., India, Japan and Europe. The Group's domestic sales and export sales accounted for 83.5% and 16.5%, respectively, of the Group's total audited consolidated sales revenue for the year ended 31 December 2007.

For the years ended 31 December 2005, 2006 and 2007, the Group's audited consolidated revenue was RMB947 million, RMB1,184 million and RMB1,905 million, respectively, and its audited consolidated profit was RMB99 million, RMB90 million and RMB306 million, respectively. As at 31 December 2005, 2006 and 2007, the Group's audited consolidated total assets were RMB1,442 million, RMB2,223 million and RMB4,786 million, respectively.

The Company has been listed on the Hong Kong Stock Exchange since 4 July 2007. The Company's registered office is located at 2/F, Cayside Harbour Drive, P.O. Box 30592 S.M.B., Grand Cayman, Cayman Islands and its principal office is located at 36/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. As at 7 May 2008, the market capitalisation of the Company was approximately HK\$17 billion based on the closing price of HK\$13.98 per share as quoted on the Hong Kong Stock Exchange.

Strategy

The Company's goal is for the Group to become one of the world's leading mechanical transmission equipment manufacturers specialising in the research, design, development, manufacture and distribution of high quality mechanical transmission equipment and related products. To this end, the Company plans to carry out or is in the process of carrying out the following strategies:

Expand the Group's product range to cover a wider variety of high quality and specialised products

The Company aims to continue to leverage on its technological and design capabilities to design and manufacture technologically advanced and high quality mechanical transmission equipment. The Company plans to expand the Group's product range by designing and manufacturing more powerful Wind Generation Gear Transmission Equipment, as the Company believes the wind power industry has strong growth potential both domestically and internationally and intends to capitalise on this growth. For example, pursuant to NGC's joint development agreement with GE in August 2006, NGC and GE are cooperating in the development of Wind Generation Gear Transmission Equipment for GE's 1.5 MW wind turbine generators, which will be manufactured by NGC (such 1.5 MW Wind Generation Gear Transmission Equipment having passed trial testing in February 2008), and the Company has set up a research and development team to develop Wind Generation Gear Transmission Equipment for GE's 2 MW wind turbine generators, which is expected to be ready for production during the first quarter of 2009. The Company also plans to produce a greater variety of Marine Gear Transmission Equipment, mechanical transmission equipment used for light rails and high-speed rails and mechanical transmission equipment for controllable pitch propellers. The Group established the joint venture company ZF Nanjing Marine Propulsion Co., Ltd. with ZF (China) Investment Co., Ltd. in July 2006 for the assembly and sale of Marine Gear Transmission Equipment, and in April 2007 entered into a development support service agreement with Alstom Group, one of the world's leading railway infrastructure technical service providers, to design and develop Rail Gear Transmission Equipment. The Company also plans to construct a production facility for Rail Gear Transmission Equipment which is expected to commence operations in 2008. Through its collaborations with leading international industrial product manufacturers, in conjunction with its research and development capability, the Company believes that it will be able to expand the Group's product portfolio. By expanding the Group's product range, the Company believes that it can solidify the Group's market leadership position in the PRC and enhance the Group's market share internationally.

Continue organic growth and growth through acquisitions

The Company intends to make a variety of investments in order to expand the Group's production capacity. In particular, the Company intends to expand facilities and purchase equipment related to the production of Wind Generation Gear Transmission Equipment, Marine Gear Transmission Equipment and Rail Gear Transmission Equipment. By expanding the Group's production capacity, the Company believes that it will be able to satisfy increased demand for the Group's products and increase the Group's revenue.

In addition, the Company will, from time to time, prudently and selectively review opportunities for strategic acquisitions that will complement the Group's product portfolio and production capabilities, supplement its current technologies and know-how and assist it in expanding its market share. No timeframe, however, has been set for making any such acquisitions.

Continue to invest in research, design and development capabilities and strengthen the Group's technological capabilities

The Company believes that one of the key elements for the Group's future success is the continued investment in research, design and development capability to improve the quality and technological features of

the Group's products and to expand the Group's product portfolio. As the Group's customers continue to upgrade their products, the Company will need to continually improve the Group's products both in relation to design and technological features to meet its customers' evolving requirements. In addition, the Company has invested in the development of new products including Wind Generation Gear Transmission Equipment and Marine Gear Transmission Equipment. For the three years ended 31 December 2005, 2006 and 2007, the Company spent RMB25.2 million, RMB30.9 million and RMB58.4 million, respectively, on research and development activities, part of which has been capitalised, and the Company plans to continue to invest in research, design and development with a view of enhancing its operational efficiency and product quality.

As part of its plan to keep up with the latest technological developments, the Company will continue to improve the technological capabilities of the Group's research, design and development team. The Company plans to increase the number of masters degree in engineering programmes and MBA programmes, which are organised through its collaboration with various universities in the PRC, and which the Company offers to the Group's employees. In addition, the Company seeks to recruit mechanical transmission equipment industry experts from countries such as Japan and Germany.

Broaden and strengthen relationships with the Group's strategic business partners and develop new strategic business partnerships

The Company intends to continue to leverage on existing relationships with the Group's international business partners and establish partnerships with new international business partners to broaden the Group's product mix. In particular, the Company intends to expand the series and range of products officially recognised by the Group's business partners in order that the Group may become "qualified suppliers" to such business partners for a wider range of products. Over time, the Company intends to move from supplying Wind Generation Gear Transmission Equipment for GE's 1.5 MW wind turbines to supplying equipment to GE for wind turbines that are capable of generating up to 5 MW. Currently, the Group is in the process of developing gears for 2 MW wind turbines for GE. The Company also intends to provide more custom-designed or jointly developed products to its international customers. For example, aside from the assembly and sale of Marine Gear Transmission Equipment by ZF Nanjing, the Company's joint venture with ZF China, it also intends to invest in the development and production of controllable propellers and hydraulic pressure controlling systems for export sales to ZF Friedrichshafen AG, a corporation that provides components and systems to the automotive, commercial vehicle, off-highway/construction, marine, rail and aviation industries in the international market. Moreover, in April 2007, the Group entered into a development support service agreement with Alstom Group for Rail Gear Transmission Equipment.

The Company intends to build upon its experience and market knowledge derived from its strategic cooperation and development relationships with leading manufacturers such as GE, ZF, Alstom Group and Goldwind. The Company believes that its relationships with these customers will increase the Group's profile and credibility both in the PRC and internationally, which will enable the Group to establish and enhance its credibility with other potential leading domestic and international industrial product manufacturers and explore additional opportunities for strategic business partnerships.

Invest in production facilities to manufacture raw materials for critical components for the Group's products and secure supply for its operations

The Group currently relies on third party suppliers for the raw materials, such as forged steel and cast iron products, steel plates and bearings, required in the production of its products. With the expansion of the Group's production capacity, the Company also intends to invest in upstream facilities (through joint venture or otherwise) to manufacture forged steel and cast iron products to be used as feedstock for its operations. As a result of this investment, the Company believes that it will be able to reduce the Group's exposure to price

volatility, quantity shortages and quality fluctuations of key raw materials and input components and improve the Group's profitability and product quality. In addition, the Group has also signed a fixed volume and price supply contract with a major supplier for orders placed in 2008 for bearings. Notwithstanding the above, the Company will continue to attempt to pass through raw material cost for delivery in increases to its customers, an approach which the Company has been relatively successful in the past.

THE OFFERING

The following is a general summary of the terms of the Bonds. This summary is derived from, and should be read in conjunction with, the full text of the “Terms and Conditions of the Bonds” and the Trust Deed constituting the Bonds, which prevail to the extent of any inconsistency with the terms set out in this section. Capitalised terms used herein and not otherwise defined have the respective meanings given to such terms in the “Terms and Conditions of the Bonds”.

Issuer	China High Speed Transmission Equipment Group Co., Ltd.
Issue	RMB1,996,300,000 aggregate principal amount of USD Settled Zero Coupon Convertible Bonds due 2011, convertible into fully-paid ordinary shares with a par value of US\$0.01 each of the Company.
US Dollar Settlement	All amounts due under, and all claims arising out of or pursuant to, the Bonds or the Trust Deed from or against the Company shall be payable and settled in US dollars only.
Issue Price	100%
Form and Denomination	The Bonds will be issued in registered form in the denomination of RMB100,000 each and integral multiples thereof with no coupons attached.
Subscription Price	The subscription amount payable in respect of each Bond (in a principal amount of RMB100,000) on the Issue Date is US\$14,303.696, based on an issue price of 100% and an exchange rate of RMB6.9912 to US\$1.00.
Interest	Save for default interest, the Bonds do not bear any interest.
Issue Date	14 May 2008
Maturity Date	14 May 2011
Negative Pledge	The Company undertakes that, so long as any of the Bonds remains outstanding, it will not, and will procure that none of its Subsidiaries will, create or permit to subsist or arise any Encumbrance upon the whole or any part of its present or future undertakings, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or any guarantee of or indemnity in respect of any such Relevant Indebtedness unless, at the same time or prior thereto, according to the Bonds the same Encumbrance as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or according such other security as shall be approved by an Extraordinary Resolution of the Bondholders.
Conversion Period	On or after 13 June 2008 up to the close of business (at the place where the certificate evidencing such Bond is deposited for conversion) on 30 April 2011 or, if the Bonds shall have been called

for redemption before the Maturity Date, then up to the close of business (at the place aforesaid) on a date no later than seven days prior to the date fixed for redemption thereof or if such Bond shall have been called for mandatory conversion by the Issuer, then up to the close of business (at the place aforesaid) on the deemed Conversion Date for mandatory conversion.

Conversion Price HK\$17.78 per Share with a fixed exchange rate applicable on conversion of the Bonds of HK\$1.00 to RMB0.8968. The Conversion Price will be subject to adjustment for, among other things, consolidation, subdivision or reclassification of Shares, capitalisation of profits or reserves, Capital Distributions, rights issues and other dilutive events or a Change in Control.

Final Redemption Unless previously redeemed, converted or purchased and cancelled, the Bonds will be redeemed on 14 May 2011 at an amount equal to the US Dollar Equivalent of their RMB principal amount multiplied by 109.3443%.

Mandatory Conversion at the Option of the Company On or at any time after 14 May 2010 and prior to the Maturity Date, the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders, the Principal Agent and the Trustee (which notice will be irrevocable), mandatorily convert all or some only of the Bonds for the time being outstanding into Shares provided that the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) translated into Renminbi at the Prevailing Rate applicable to the relevant Trading Day, for 20 out of 30 consecutive Trading Days, the last day of such 30 Trading Day period falling within five Trading Days prior to the date upon which notice of such conversion is given, was at least 120% of the applicable Early Redemption Amount in effect on such Trading Day divided by the Conversion Ratio.

If there shall occur an event giving rise to a change in the Conversion Price during any such 20 Trading Day period, appropriate adjustments for the relevant days shall be made, as determined by the Independent Investment Bank, for the purpose of calculating the closing price for such days.

Redemption at the Option of the Company On or at any time prior to the Maturity Date, the Company may, having given not less than 30 nor more than 60 days' notice to the Bondholders, the Principal Agent and the Trustee (which notice will be irrevocable), redeem all and not some only of the Bonds for the time being outstanding at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount on the redemption date if at least 90% in principal amount of the Bonds originally issued has already been converted, redeemed or purchased and cancelled.

Tax Redemption and Non-Redemption

Right The Company may redeem all and not some only of the Bonds at a redemption price equal to the US Dollar Equivalent of the Early Redemption Amount on the redemption date in the event of certain changes in the Cayman Islands or Hong Kong taxation. If the Company exercises its tax redemption right, each holder of the Bonds shall have the right to elect that all or a portion of its Bonds shall not be redeemed. Upon the exercise of the non-redemption right with respect to such Bonds, no additional amounts referred to in the Terms and Conditions of the Bonds shall be payable on the payments due after the relevant date in respect of such Bonds and, subject to the Terms and Conditions of the Bonds, such payments shall be made subject to any deduction or withholding required under the laws or regulations of the Cayman Islands or Hong Kong.

Redemption upon Delisting or Change of Control

..... A Bondholder shall have the right, at such Bondholder's option, to require the Company to redeem all or some only of that holder's Bonds at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount on the redemption date upon (i) the Shares ceasing to be listed or admitted to trading or suspended for a period equal to or exceeding 30 Stock Exchange Business Days on the Hong Kong Stock Exchange (or if applicable, the Alternative Stock Exchange) or (ii) the occurrence of a Change of Control with respect to the Company.

Clearing Systems

..... The Bonds will be represented by beneficial interests in the Global Certificate, which will be registered in the name of a nominee of, and deposited on the Issue Date with a common depository for, Euroclear and Clearstream, Luxembourg. Beneficial interests in the Global Certificate will be shown on and transfers thereof will be effected only through records maintained by Euroclear and Clearstream, Luxembourg. Except as described herein, definitive certificates for Bonds will not be issued in exchange for beneficial interests in the Global Certificate.

Governing Law

..... English law

Trustee and Principal Agent

..... The Bank of New York

Listing

..... Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Bonds are listed on the SGX-ST.

The Shares are currently, and those Shares to be issued upon conversion of the Bonds will be, listed on the Hong Kong Stock Exchange.

Common Code for the Bonds

..... 036090421

International Securities Identification

Number for the Bonds XS036094212

Equity Swap In connection with the issue of the Bonds, the Company entered into a cash-settled equity swap transaction with Morgan Stanley & Co. International plc, in its capacity as swap counterparty, for Shares up to a value of HK\$1,113 million. See “Subscription and Sale—Equity Swap”.

SUMMARY FINANCIAL INFORMATION

The following tables set forth the summary audited consolidated financial information of the Company as at the years indicated.

The summary audited consolidated financial information as at and for the years ended 31 December 2005, 2006 and 2007 set forth below is derived from the Company's published audited consolidated financial statements for the year ended 31 December 2005, 2006 and 2007 (which have been audited by Deloitte Touche Tohmatsu, certified public accountants, and are incorporated by reference in this Offering Circular) and should be read in conjunction with such published audited consolidated financial statements and the notes thereto.

The Company's audited consolidated financial statements and unaudited financial information are prepared and presented in accordance with IFRS.

Consolidated Income Statement Data

	Year ended December 31,			
	2005	2006	2007	
	RMB	RMB	RMB	US\$
	In thousands, except per share amounts			
Revenue	946,686	1,184,307	1,904,816	261,127
Cost of sales	(672,074)	(843,544)	(1,351,751)	(185,308)
Gross profit	274,612	340,763	553,065	75,819
Other income	14,311	23,301	192,308	26,363
Distribution costs	(44,184)	(55,690)	(79,320)	(10,874)
Administrative expenses	(102,575)	(137,489)	(282,210)	(38,688)
Research and development costs	(8,267)	(14,660)	(22,850)	(3,133)
Finance costs	(21,230)	(41,536)	(33,017)	(4,526)
Share of loss of an associate	—	(836)	(3,628)	(497)
Loss on changes in fair value of convertible bonds	—	(20,111)	—	—
Profit before taxation	112,667	93,742	324,348	44,464
Taxation	(13,330)	(3,514)	(17,904)	(2,454)
Profit for the year	<u>99,337</u>	<u>90,228</u>	<u>306,444</u>	<u>42,010</u>
Attributable to:				
Equity holders of the parent (the Company)	81,756	85,648	306,693	42,044
Minority interests	17,581	4,580	(249)	(34)
	<u>99,337</u>	<u>90,228</u>	<u>306,444</u>	<u>42,010</u>
Dividend attributable to:				
Equity holders of the parent (the Company)	50,000	86,000	34,789	4,769
Minority interests	14,320	—	—	—
	<u>64,320</u>	<u>86,000</u>	<u>34,789</u>	<u>4,769</u>
Earnings per share—basic	<u>0.17</u>	<u>0.14</u>	<u>0.29</u>	<u>0.04</u>

(1) All items for the year ended 31 December 2007 in this table have been translated from Renminbi to US dollars at the rate of RMB7.2946 to US\$1.00

Consolidated Balance Sheet Data

	As at December 31,			
	2005	2006	2007	
	RMB	RMB	RMB	US\$ ⁽¹⁾
	In thousands, except per share amounts			
NON-CURRENT ASSETS				
Property, plant and equipment	510,125	866,835	1,405,364	192,658
Prepaid lease payments—non-current portion	35,007	20,291	49,893	6,840
Intangible assets	17,153	29,877	54,848	7,519
Interest in an associate	—	11,164	7,536	1,033
Available-for-sale investments	1,550	1,350	14,703	2,016
Deposit paid for acquisition of prepaid lease payments	6,060	22,060	114,210	15,657
Deposits paid for acquisition of property, plant and equipment	—	—	95,880	13,144
Deferred tax assets	1,097	1,495	8,283	1,136
	<u>570,992</u>	<u>953,072</u>	<u>1,750,717</u>	<u>240,003</u>
CURRENT ASSETS				
Inventories	229,313	347,509	646,107	88,573
Prepaid lease payments—current portion	752	305	1,226	168
Available-for-sale investments	—	—	43,000	5,895
Trade and other receivables	416,569	530,242	638,497	87,530
Amount due from an associate	—	—	10,906	1,495
Amounts due from related parties	12,993	2,578	1,716	235
Pledged bank deposits	148,013	192,779	177,265	24,301
Bank balances and cash	63,517	196,098	1,516,146	207,845
	<u>871,157</u>	<u>1,269,511</u>	<u>3,034,863</u>	<u>416,042</u>
CURRENT LIABILITIES				
Trade and other payables	562,424	777,028	1,156,074	158,484
Amounts due to related parties	136,124	11,127	—	—
Dividend payable	124	—	—	—
Tax payable	8,012	3,840	15,557	2,133
Bank borrowings—due within one year	460,800	612,615	420,818	57,689
	<u>1,167,484</u>	<u>1,404,610</u>	<u>1,592,449</u>	<u>218,306</u>
NET CURRENT (LIABILITIES) ASSETS	<u>(296,327)</u>	<u>(135,099)</u>	<u>1,442,414</u>	<u>197,736</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>274,665</u>	<u>817,973</u>	<u>3,193,131</u>	<u>437,739</u>
NON-CURRENT LIABILITIES				
Bank borrowings—due after one year	90,000	284,586	73,040	10,013
Deferred tax liabilities	674	2,159	12,224	1,676
	<u>90,674</u>	<u>286,745</u>	<u>85,264</u>	<u>11,689</u>
	<u>183,991</u>	<u>531,228</u>	<u>3,107,867</u>	<u>426,050</u>
CAPITAL AND RESERVES				
Share capital	8	12	94,629	12,973
Reserves	133,760	526,987	3,009,916	412,622
Equity attributable to equity holders of the parent	133,768	526,999	3,104,545	425,595
Minority interests	50,223	4,229	3,322	455
	<u>183,991</u>	<u>531,228</u>	<u>3,107,867</u>	<u>426,050</u>

(1) All items as at 31 December 2007 in this table have been translated from Renminbi to US dollars at the rate of RMB7.2946 to US\$1.00.

RISK FACTORS

Prior to making an investment decision, prospective purchasers of the Bonds should carefully consider, together with all other information contained in this Offering Circular, the risks and uncertainties described below. The business, financial condition or results of operations of the Group may be materially and adversely affected by any of these risks. The risks described below are not the only ones relevant to the Group, the Bonds or the Shares. Additional risks and uncertainties not presently known to the Group or which the Group currently deems immaterial may also have an adverse effect on an investment in the Bonds or the Shares.

This Offering Circular also contains forward-looking statements that involve risks and uncertainties. The Group's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including the considerations described below and elsewhere in this Offering Circular.

Risks Related to the Group's Business

The Group faces significant competition in each of the markets in which the Group operates.

The Group faces intense and diversified competition in the PRC domestic market and international markets in which it operates. Domestically, the Group's competitors mainly consist of a few large-scale mechanical transmission equipment manufacturers such as Chongqing Gearbox Co. Ltd., and Hangzhou Advance Gearbox Co., Ltd., which produce mechanical transmission equipment that compete with some of its products. In respect of its high-end and high-precision series of products, the Group also faces competition from international manufacturers, such as SEW-Eurodrive Group, Winergy Power, LLC and Hansen Transmissions International NV., each of which has a global network of offices and markets and sells products to customers internationally and in the PRC. Larger domestic and overseas competitors may have competitive advantages over the Group in certain areas such as access to capital, technology, product quality, economies of scale and brand recognition and may consequently be better positioned than the Group is to develop superior product features and technological innovations and to exploit and adapt to market trends.

The Group's market position depends on its ability to anticipate and respond promptly to changes in economic and market conditions and evolving industry trends, as well as the following factors: ability to introduce new or superior products and services or more advanced technologies and ability to anticipate and respond to changes in pricing strategies by the Group's competitors and changes in customers' needs and preferences. There can be no assurance that the Group's current or potential competitors will not produce similar products or products of a better quality at the same or lower prices than the prices at which the Group's products are sold. The Group's competitors may also react more quickly to new or emerging technologies or changes in customer preferences. In addition, the Group may face greater than expected downward pricing pressure as a result of price competition by competitors seeking to stimulate demand in order to maintain or increase market share. Any adverse changes in the Company's competitive environment could cause a reduction in the sales quantity or the sales price of the Group's products, which would have a material adverse effect on the Group's results of operations and business prospects.

The Group may experience shortages in the supply of raw materials, which could materially affect the Group's production process and planned expansion.

The manufacture of the Group's products requires a variety of raw materials such as cast iron and forged steel, steel plates and bearings. The Group does not generally enter into contracts with suppliers that would guarantee minimum available quantities but rather procures its raw materials through bidding exercises as and when required in order to minimise the Group's inventory levels and costs. However, due to the recent high level of activity globally in the heavy industries sector, which includes energy, iron and steel and machinery industries, there is significant international demand for supplies of these materials. As such, there is no assurance that it will be able to purchase sufficient quantities of raw materials and/or secure a stable supply of raw materials in the

future. In addition, the Group's planned expansion will increase its demand for raw materials substantially and there is no assurance that the Group will be able to obtain an adequate supply of raw materials to meet its expanded capacity fully or at all. Failure to secure sufficient quantities of raw materials for the Group's existing operations and its planned business expansion, or at all, at reasonable prices and in a timely manner, would have a material adverse impact on its business operations and financial performance. For details see "Business—Suppliers of Raw Materials".

The Group is subject to price fluctuations of raw materials that it may be unable to pass on to its customers.

The Group is dependent on third-party suppliers for its raw materials, which principally consist of forged steel, bearings, cast iron and steel plates. The prices of the Group's principal raw materials are subject to price fluctuations resulting from the volatility of supply and demand in the international market and in the PRC market. As a result, the Group is susceptible to sustained upward movements in the cost of such raw materials and there can be no assurance that the Group will be able to fully pass on any price increases in raw materials to its customers. To the extent that the Group cannot fully pass on the price increases in raw materials to its customers, or at all, its business operations and financial performance could be materially and adversely affected. For details see "Business — Suppliers of Raw Materials".

The Group relies on third parties in respect of certain production processes.

The Group relies on third parties to process certain raw materials, primarily under the following four circumstances: (i) when certain simple, labour-intensive manufacturing processes can be done less expensively when outsourced; (ii) when it does not have the production capacity to manufacture; (iii) when certain products require specialised processing which it is unable to carry out because it does not have the necessary equipment; and (iv) when certain specialised treatment is required due to environmental issues which it is unable to carry out because it does not have the necessary equipment or expertise. Costs incurred from outsourced processing were 25.7%, 20.4%, and 16.9% respectively of the Group's total cost of goods sold for the three years ended 31 December 2005, 2006 and 2007. There is no assurance that the Group will be able to secure such outsourcing services sufficient for its production needs, or at all. Further, the costs for outsourced processing are subject to price fluctuations because of the volatility of supply and demand in the international market and in the PRC domestic market. If the Group is unable to secure sufficient outsourcing services for its production needs, or at all, or to the extent that it cannot fully pass on the cost increases in outsourced processing to its customers, or at all, its business operations and financial performance could be materially and adversely affected.

The Group's products are subject to replacement risk and the Group's research, design and development activities may not yield the benefits that it expects.

The Group manufactures its products primarily using technologies that it develops in-house. Research, design and development activities require considerable human resources and capital investment. The Group has spent approximately RMB58.4 million in aggregate on research, design and development activities for the year ended 31 December 2007, part of which has been capitalised, and based on its current business plan, the Group intends to spend approximately RMB400 million for the years ending 31 December 2008, 2009 and 2010. The Group's research, design and development efforts may not be successful or yield the anticipated level of economic benefit. Even if its research, design and development efforts are successful, it may be unable to apply the new technologies to products in a manner that the market requires or needs or apply them in a timely manner to take advantage of the opportunities presented in the market. Furthermore, the market demand expected at the development stage of the Group's new products and cost reductions expected with increasing economies of scale and maturation of such new technologies may not materialise. The level of economic benefit that can be derived from newly developed technologies or products may be affected by how quickly the Group's competitors can replicate the technology or product. In addition, the technologies and products that the Group develops may be made obsolete by new products, newer models of existing products or new technologies developed by

competitors. For example, the successful commercialisation of the technology for the production of gearless wind turbines in the future may threaten the commercial viability of the Group's existing products. If the Group's technologies or products are replicated, replaced or made redundant in a manner which it does not anticipate, its revenues may not offset the costs it incurs in developing new technologies, which would have a material adverse impact on its business operations and financial performance. In addition, if the Group is unable to anticipate trends in technological or product developments and rapidly develop new and innovative technologies or products that its customers require, it may not be able to produce sufficiently technologically advanced products at competitive prices, resulting in decreased sales of its products. For details see "Business—Research, Design and Development".

The Group does not possess valid titles or permits to certain properties that it owns and it may be required to relocate its operations from those properties without proper titles or permits.

As of 7 May 2008, the Group's properties (including those used for production facilities, office buildings and other administrative functions) have a total site area of approximately 444,241 sq.m. and a total gross floor area of approximately 221,971 sq.m. For some of the properties that the Group owns, it has not yet obtained title certificates that allow it to freely use or transfer the properties. As at 7 May 2008, the Group did not possess valid long-term title certificates to eight parcels of land with a total site area of approximately 149,925 sq.m. and 13 buildings with a total gross floor area of approximately 123,818 sq.m.. Out of the eight parcels of land without valid title certificates, six parcels of land with a total site area of approximately 131,612 sq.m. were being used in the Group's production process as at 7 May 2008. In addition, the Group did not possess construction permits and planning permits in respect of two construction projects as at 7 May 2008.

The Group is in the process of applying for or will apply for the relevant title certificates and construction and planning permits for the properties without proper title or permits. Except for three buildings used by Nanjing Ningkai Mechanical Co., Ltd ("NingKai") and one building used by NGC, where under current PRC law the Group may have some difficulties in obtaining the valid building ownership certificates, the Group believes there are no material legal barriers to obtaining these title certificates and construction and planning permits. However, the Group cannot predict how its rights as owner of these properties and its operations and construction carried out on or from these properties may be adversely affected as a result of the absence of vested legal title or construction and planning permits in these properties. The Group may be required to relocate its operations from those buildings and parcels of land without valid title certificates and such relocation may adversely affect its business operations and financial performance.

As a result of the use of the properties without valid title certificates and the construction projects without proper construction permits and planning permits, the relevant governmental authorities may impose penalties on the Group which may include the imposition of work suspension orders, demolition orders and/ or fines. The range of fines for the lack of title, land use certificates and building certificates is not specified under PRC laws and regulations. The Company is currently unable to precisely quantify the adverse effect on the Group's operational and financial performance in the event that the PRC authorities decide to impose work suspension orders, demolition orders and/or fines on it as a result of the Group's failure to obtain valid title certificates or construction permits and planning permits in the future. There can be no assurance that the Group's existing business operations and business expansions currently contemplated will not be materially and adversely affected in the event that any such penalties are imposed.

For details, see "Business—Facilities".

The construction and installation of the Group's new production facilities may not be completed within the time frame or at the cost levels originally anticipated and, as a result, it may not be able to implement its future plans for expansion.

The Group intends to increase its sales volume, particularly with respect to its Wind Generation Gear Transmission Equipment, Marine Gear Transmission Equipment and Rail Gear Transmission Equipment (each as

defined in “Business”), which may require it to construct new facilities and purchase additional machinery. The Group is expanding a number of manufacturing facilities for the production of its Wind Generation Gear Transmission Equipment, Marine Gear Transmission Equipment and Rail Gear Transmission Equipment and it anticipates that more facilities will be constructed in order to implement its future plans for expansion. If the Group’s construction schedules or the delivery of its machinery and equipment experience delays, if the start-up period for any of the production facilities turns out to be substantially longer than it expected or if it is unable to recruit a sufficient number of skilled or experienced personnel, it may be unable to implement its expansion plans within the timeframe originally anticipated. If the costs involved in the construction of any of the new production facilities substantially exceed the Group’s original plans and it is unable to obtain additional financing in time or on terms that are reasonable to it, or at all, or if the capacity of any of the new production facilities fails to reach the originally designed levels, it may not be able to achieve the intended economic benefit from the new production facilities, such as economies of scale, in full or at all, which may materially and adversely affect its results of operations.

The Group needs substantial capital for investing in, constructing or acquiring new production facilities and failure to obtain capital in a timely manner on reasonable commercial terms will increase its financing costs and cause delays in its expansion plans.

The Group’s growth strategy includes investing in, constructing or acquiring new production facilities on commercially reasonable financing terms. Its ability to arrange financing and the cost of such financing are dependent on numerous factors, including but not limited to:

- general economic and capital market conditions;
- credit availability from banks or other lenders;
- investor confidence in it; and
- the continued performance of the Group and its results of operations and cash flows.

Although the Group has historically been able to obtain financing on terms acceptable to it and for the near future the Company’s capital needs will be met by the proceeds of this offering and the initial public offering, there can be no assurance that financing for investing in, constructing or acquiring new production facilities and future acquisitions will be available in a timely manner and on terms acceptable to it or at all, which could increase its financing costs and cause delays in its expansion plans.

The Group’s results of operations depend on the conditions of the industries in which its customers operate, especially the wind power industry.

The Group’s products are input components of its customers’ products. The Company’s plan to increase the Group’s production capacity, especially for mechanical transmission equipment used in certain industries such as wind power, marine and light rail and high-speed trains, is partly based on its anticipation of the growth in demand for the Group’s customers’ products. The Company also expects the proportion of the Group’s revenue generated from sales of its Wind Generation Gear Transmission Equipment and Marine Gear Transmission Equipment to increase in the future. Accordingly, if the growth in demand for the Group’s customers’ products does not match its expectations, demand for the Group’s products may be lower than anticipated. For instance, revenue generated from the Group’s Construction Gear Transmission Equipment (as defined in “Business”) declined in the two years ended 31 December 2005 and 2006 from 32.5% to 16.5% of the Group’s total revenue, in large part due to PRC government policies aimed at slowing down growth in the cement industry, thus dampening demand at that time for its Construction Gear Transmission Equipment. Furthermore, any events that have an adverse effect on the demand for wind power and Marine Gear Transmission Equipment generally, such as changes in regulatory incentives or technology, or have an adverse effect on the demand for the Group’s customers’ products specifically, could materially and adversely affect the Group’s results of operations and business prospects.

The Group's success is dependent upon hiring and retaining qualified personnel and its failure to secure qualified personnel for its operations may have a material adverse effect on its results of operations.

The Group's future performance depends to a significant extent on the continued service of its key management and technical staff, in particular, the Company's executive Directors led by Mr. Hu Yueming, the Chairman of the Board. As is customary in the PRC, the Group does not maintain insurance for losses caused by business disruptions due to the discontinuation of service of its key management and technical staff. If a significant number of members of senior management or technical staff cease to serve it in the future or fail to perform their duties as expected, or it is unable to recruit and retain a sufficient number of senior management or technical staff, the Group's financial condition and results of operations may be materially and adversely affected.

In addition, the Group requires a significant number of skilled workers to operate its machinery in its production process. Due to the skills involved in operating some of the Group's equipment, it normally takes approximately one year to fully train workers in order for them to attain the necessary skills to work in the manufacturing process. Competition for skilled manufacturing workers is intense in the PRC. Accordingly, the Group's success depends on its ability to continue to attract, retain and motivate such personnel. The Group may have to offer better salaries, incentive packages and training opportunities to attract and retain sufficient skilled workers to sustain its operations and its growth, which may increase its costs and reduce its profit margins. There can be no assurance that the Group will continue to be able to attract and retain a sufficient number of skilled workers for its existing and planned business operations. To the extent that the Group cannot attract and retain a sufficient number of skilled workers for its existing and planned business operations, or at all, its business operations and financial performance may be materially and adversely affected.

The Group may not be able to adequately protect its intellectual property rights and industrial know-how, which could weaken its competitive position and affect its operations.

The Group's success is attributable to the technologies, know-how and other intellectual property rights that it has developed. The Group has certain patents and trademarks registered in the PRC, details of which are set out in the section entitled "Business" of this Offering Circular. Infringement of intellectual property rights by other enterprises, by way of counterfeiting products, occurs frequently in the PRC. Although the Group relies upon a combination of confidentiality policies, nondisclosure and other contractual arrangements, and patent and trademark laws to protect its intellectual property rights, there can be no assurance that the steps it takes in this regard are adequate to prevent or deter infringement or other misappropriation of its intellectual property rights. The Group may not be able to detect unauthorised use or take appropriate and timely steps to enforce its intellectual property rights. Any significant infringement of the Group's confidential information and the proprietary technologies and processes used in its business could weaken its competitive position and have an adverse effect on its operations.

In addition, the Group may need to defend its intellectual property rights in legal proceedings. If the Group does not succeed in these proceedings, it could lose its proprietary rights over its intellectual property rights and it may be required to pay expensive legal costs. Also, defending claims may be costly and would divert the time and attention of the Group's management and technical personnel.

The Group's future performance and reputation are dependent on its ability to keep developing new products.

The Group's future growth depends on its ability to develop new and improved products in line with the technological advancements that meet the evolving requirements of its customers and its ability to bring these products to market in a timely manner. New products, or refinements and improvements of existing products, may have technical failures that could cause delays in their introduction. Such products may have higher production costs than the Group originally expected and they may not be accepted by the Group's customers.

Any failure of these products could have a material adverse effect on the Group's financial performance and its reputation.

In addition, if any of the Group's products or refinements were to fail, it is possible that its customers might not consider working with it again in seeking to develop products in the future. Because much of the Group's product development results from producing customised mechanical transmission equipment, it is dependent on orders from customers to develop new products. If the Group does not receive such orders in the future, its business operations and financial performance would be adversely affected.

The Group has a limited operating history in manufacturing and selling mechanical transmission equipment for the wind turbine industry.

Compared with the Group's traditional mechanical transmission equipment such as the High Speed Gear Transmission Equipment, General Purpose Gear Transmission Equipment (each as defined in "Business") and Construction Gear Transmission Equipment, its Wind Generation Gear Transmission Equipment series, which it began to supply in early 2004, is a relatively new series of products. The contribution to the Group's total revenue from the sales of its Wind Generation Gear Transmission Equipment increased from 2.8% for the year ended 31 December 2005 to 26.8% for the year ended 31 December 2006 and then to 37.7% for the year ended 31 December 2007. In addition, substantially all of the sales of the Group's Wind Generation Gear Transmission Equipment were generated by three customers during the three years ended 31 December 2005, 2006 and 2007. Since the wind power industry is a relatively new market and because of the Group's limited operating history in manufacturing for and selling mechanical transmission equipment to the wind turbine industry, long-term trends and developments in this aspect of its business are difficult to identify and the financial information contained in this Offering Circular may not be indicative of the Group's financial condition or results of operations in the future, including the results of operations of its Wind Generation Gear Transmission Equipment.

The Group's sales of the Wind Generation Gear Transmission Equipment are dependent on a limited number of customers including GE, the loss of whom may have a material adverse impact on the Group's business.

The Group supplies its Wind Generation Gear Transmission Equipment to a limited number of domestic and international manufacturers of wind turbines including Goldwind Science and Technology Co., Ltd ("Goldwind"), General Electric Company ("GE") and Dongfang Turbine Co., Ltd. ("Dongfang") and is exposed to the risk of customer concentration in respect of its sale of Wind Generation Gear Transmission Equipment. Sales of the Group's Wind Generation Gear Transmission Equipment to Goldwind and Dongfang, being two of its top five customers in 2007, together constituted 73.9% of the total sales revenue of the Group's Wind Generation Gear Transmission Equipment in 2007. Loss of any of these customers or a substantial decline in orders from such customers could have a material adverse impact on the sales of the Group's Wind Generation Gear Transmission Equipment and the benefits it expects to derive from its planned expansion.

In May 2006, Nanjing High Speed & Accurate Gear (Group) Co., Ltd ("NGC"), a wholly owned subsidiary of the Company, entered into a supply agreement with GE for the supply of Wind Generation Gear Transmission Equipment for GE's wind turbines. In August 2006, NGC entered into a joint development agreement with GE in respect of the joint development of mechanical transmission equipment for GE's 1.5 MW wind turbines. The Company expects that a significant portion of the Group's future revenue will be derived from sales revenue of its Wind Generation Gear Transmission Equipment from GE. Pursuant to the joint development agreement, NGC is obliged to reserve production capacity to meet forecasted purchases by GE of specifically developed mechanical transmission equipment. If GE is unable to purchase the quantity of mechanical transmission equipment that it forecasts to purchase from NGC or if the supply agreement and/or the joint development agreement is terminated, the Group would have excess capacity and would require time to convert the excess capacity into capacity capable of producing products for its other customers, which could have a material adverse impact on the Group's business operations and financial performance.

If the Group's mechanical transmission equipment experiences any mechanical failure, its reputation may be harmed and it may have to replace such products and be subject to claims for consequential damages for any losses due to the failure of its mechanical transmission equipment.

The Group's products are used in a variety of industries and are used as essential components of the products of its customers and end-users. Any mechanical failure of the Group's products could materially and adversely affect the entire production line and could result in significant consequential losses to its customers or end-users. The Group's customers often require it to give a minimum one-year quality guarantee for its products during which it is responsible for repairing and correcting any quality defects either at no charge or at cost. In certain cases, the Group may agree to a quality guarantee exceeding one year. During the three years ended 31 December 2005, 2006 and 2007, some of the Group's customers encountered mechanical failures in its products during the guarantee period mainly due to normal wear and tear. Such failures have been rectified by the Group to the extent that it is responsible under the quality guarantee and no claims or lawsuits have been filed by customers in respect thereof during the above period. However, there can be no assurance that the Group will be able to correct possible future quality problems of its products in a timely or efficient manner. If the Group is unable to correct all the quality defects within the guarantee period or at all, its customers may file claims or lawsuits against it for losses resulting from the failure of its products. Such claims and lawsuits could also have a material, direct or indirect, adverse effect on the Group's reputation as well as business operations and financial performance.

The Group may experience difficulty in collecting account receivables from its customers.

The Group typically requires its customers to pay a deposit of 25% to 30% of the purchase price upon signing of the purchase order, another 25% to 30% during the manufacturing process, and the remaining balance, subject to an amount of 5% to 10% of the purchase price retained by the customer as described below, to be paid upon delivery to customers, or upon installation and testing of the products by the customers. The Group's customers usually require a period of time to settle the instalments, which enable them to assemble the machinery and the end-user to install and test the final product. The Group's contracts usually provide that 5% to 10% of the purchase price shall be treated as retention monies to secure its performance of warranty obligations and shall be paid upon the expiry of the warranty period (usually 12 months) or 18 months after the delivery of its products to its customers. The Group's mechanical transmission equipment, however, is only a component of its customers' products. Accordingly, the Company's customers are unable to test its mechanical transmission equipment until they receive all of the other components they need to produce (and thus test) their products. The Company believes that some of its customers have experienced delays in receiving these other components, which resulted in delays in their testing of its products and, in turn, delays in their payments to it. The proportions of the Group's account receivables that were outstanding for more than one year were 7.3%, 3.2% and 3.7% for the three years ended 31 December 2005, 2006 and 2007, respectively. Allowance against trade receivables to the extent amounts are considered to be uncollectible or unlikely to be collectible within a reasonable period of time vary depending on the credit terms granted to the relevant customers, the creditworthiness of the relevant customers and the past payment histories of the relevant customers. The Group continues to attempt to collect account receivables from its customers even after the credit period expires and its staff will follow up with these customers and request payment, a process that inevitably takes time. The Company will only deem trade receivables uncollectible after careful consideration and after having attempted to collect such trade receivables from its customers. Trade receivables aged over three years are generally deemed uncollectible or unlikely to be collectible. As at 31 December 2005, 2006 and 2007, the Group's accumulated impairment for doubtful debts amounted to RMB23.2 million, RMB28.1 million and RMB31.5 million, respectively, representing 5.6%, 5.3% and 4.9% of its trade and other receivables, respectively. For the three years ended 31 December 2005, 2006 and 2007, the amount of impairment loss on trade and other receivables actually made amounted to RMB6.6 million, RMB5.0 million and RMB3.5 million, respectively. There can be no assurance that the Group's customers will meet their payment obligations on time or in full or that the level of bad debts will not increase. Any inability on the part of the Group's customers to settle amounts on time may have a material adverse effect on the Group.

Further details of the Group's account receivables and their aging analysis are set out in note 24 to the consolidated financial statement in the Company's 2007 Annual Report.

The Group's insurance policies do not cover all operating risks.

While the Group maintains insurance policies covering losses, including comprehensive insurance over its properties and equipment, as is a common practice in the mechanical transmission equipment industry in China, it does not carry product liability insurance for its products. With respect to losses that are covered by the Group's policies, it may be difficult and may take time to recover such losses from insurers. In addition, the Group may not be able to recover the full amount from the insurer. There can be no assurance that the Group's policies would be sufficient to cover all potential losses, regardless of the cause, or whether it can recover for such losses at all.

The Group is reliant on the PRC market and it may be unable to adjust its resources to other markets in the event of an economic downturn in the PRC.

During the three years ended 31 December 2005, 2006 and 2007, 91.7%, 88.3% and 83.5% of the Group's revenue, respectively, was derived from sales to customers in the PRC. While the Company believes that the Group's sales to overseas customers will increase in the future, it anticipates that the sales to customers based in the PRC will continue to represent a significant proportion of its revenue. Any adverse change in the economic conditions in the PRC may directly or indirectly affect the demand for the Group's products.

Power shortages could adversely affect the Group's businesses.

The Group consumes a substantial amount of electric power at its production facilities, all of which are located in China. The Group's operations are vulnerable to power shortages that generally affect enterprises located in China and manufacturers in China have in recent years experienced power shortages. In particular, Jiangsu, the province in which a large part of the Group's production facilities are located, has been subject to occasional power shortages. During 2005, due to power shortages in Jiangsu Province, the Group was forced to rely on two of its own power generators in order to conduct its routine business operations. There is no assurance that power shortages will not affect the Group's operations in the future. In addition, the Group does not have any insurance covering business interruptions, including loss of profits from interruptions resulting from power outage. Any losses that may occur as a result of these kinds of events could adversely affect the Group's manufacturing operations and its results of operations.

The Controlling Group has the ability to exercise control over the Company, which allows the Controlling Group to influence the Group's business in ways that may not be in the interests of the holders of the Bonds.

The Company is controlled by a group of shareholders comprising of the Management Shareholders (as defined in "Directors and Management"), acting through Fortune Apex Limited, Mr. Pan Jinhong acting through Wiaearn Holdings Limited, and Mr. Liu Xuezhong and his wife Ms. Li Yuelan acting through Luckever Holdings Limited (the "**Controlling Group**"). As at 7 May 2008, the Controlling Group holds approximately 44.4% of the Company's issued share capital. Accordingly, subject to the Articles of Association and applicable laws and regulations, the Controlling Group will, through its voting rights as a group of controlling shareholders, be able to influence the Company's major policy decisions, including its overall strategic and investment decisions, dividend plans, issuances of securities and adjustments to its capital structure and other actions that require the approval of its shareholders. As a result, the Controlling Group will have the ability to exert significant influence over the Company's actions and may have the ability to require it to effect corporate transactions irrespective of the desires of its other shareholders.

The interests of the Controlling Group may not always coincide with those of the Company, the Company's shareholders or the holders of the Bonds. If the interests of the Controlling Group conflict with the interests of the Company's other shareholders or holders of the Bonds, or if the Controlling Group chooses to cause the Company to pursue strategic objectives that conflict with the interests of the Company's other shareholders or holders of the Bonds, investors in the Bonds may be disadvantaged as a result.

The Group's results of operations are subject to cyclical fluctuations.

The Group's sales are subject to cyclical fluctuations during the year. Generally, the Group's sales are higher in the last two quarters of the year than in the first two quarters of the year, but may vary considerably from time to time as a result of changes in customer demand. As such, any unpredicted and unusual change in customer demand could adversely affect the Group's results of operations.

As a result of the cyclical nature of the Group's business, its results of operations may fluctuate from quarter to quarter. An analysis of the Group's interim financial performance may not be indicative of its full-year results due to the cyclical nature of its sales. The Company believes the cyclical fluctuations in the Group's results of operations will continue in the future.

The Group may experience difficulties in expanding in overseas markets.

The Group expects sales to overseas customers to grow significantly in the near future as it increases sales of its Wind Generation Gear Transmission Equipment, Marine Gear Transmission Equipment and Rail Gear Transmission Equipment. Some of the Group's products are new to these overseas markets and it faces risks in expanding its business overseas. The risks include differences in legal and regulatory requirements and patent protection, potentially adverse tax consequences, fluctuations in currency exchange rates, differences in legal burdens in complying with foreign laws and regulations and changes in political and economic conditions. There is no assurance that the Group will be able to gain a foothold in these various markets overseas and the deployment of human and financial resources in pursuit of such expansion plans may have a material and adverse impact on its results of operations and business prospects.

Risks Related to the PRC

Changes in PRC Government regulations and policies in relation to the industries in which the Group or its customers operate may adversely affect its business operations.

The PRC is a country that experiences frequent and sudden changes in government regulations and policies. The Group's products can be applied across various industries, and each industry may experience different changes in government policies and regulations at any one time. There can be no assurance that there will not be any unfavourable changes in the PRC Government policy that affect the industries in which the Group or its customers operate, which could in turn adversely affect the demand for its products.

Political and economic policies of the PRC Government could affect the Group's business, results of operations and financial condition.

Substantially all of the Group's business assets and operations are located in the PRC. As a result, the Group's business, results of operations and financial condition are subject to the political, economic, legal and social conditions, laws, regulations and policies in the PRC. The economy of the PRC differs from the economies of most developed countries in such respects as structure, level of government involvement, level of development, growth rate, level and control of capital reinvestment, allocation of resources, rate of inflation and control of foreign exchange.

Before its adoption of reform and open-door policies beginning in 1978, China was primarily a planned economy. Since that time, the PRC Government has been reforming the PRC economic system and has also begun reforming the government structure in recent years. These reforms have resulted in significant economic growth and social progress. Although the PRC Government still owns a significant portion of the productive assets in the PRC, economic reform policies since the late 1970s have emphasised autonomy in business management and the importance of market forces, especially where these policies apply to privately owned businesses such as the Group's. Although the Company believes these reforms will have a positive effect on the Group's overall and long-term development, it cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any adverse effect on the Group's current or future business, results of operations or financial condition.

A slow-down of the PRC economy could adversely affect the Group's business and growth prospects.

In response to concerns related to China's high rate of growth in industrial production, bank credit, fixed investment and money supply, the PRC Government has expressed its intention to adopt measures to slow economic growth to a more manageable rate. Among the measures that the PRC Government has taken are restrictions on bank loans to certain sectors, in which some of the Group's customers operate. In addition, in October 2004, the People's Bank of China ("PBOC"), the PRC's central bank, increased interest rates for the first time since July 1995. PBOC increased interest rates eight times further from April 2006 to December 2007. These measures and any additional increases in interest rates could slow economic growth in China and reduce investment in some of the industries in which some of the Group's customers operate, which could have an adverse effect on its business operations.

The outbreak of any severe communicable disease in the PRC, if uncontrolled, may materially and adversely affect the Group's results of operations.

The outbreak of any severe communicable disease in the PRC, if uncontrolled, could have an adverse effect on the overall business sentiment and environment in the PRC, which in turn may have an adverse impact on domestic consumption and, possibly, the overall GDP growth of the PRC. As a large proportion of the Group's revenue is currently derived from its PRC operations, any contraction or slowdown in the growth of domestic consumption or slowdown in the GDP growth of the PRC may materially and adversely affect the Group's financial condition, results of operations and future growth. In addition, if the Group's employees are affected by severe communicable disease, the Group may be required to close its facilities or institute other measures to prevent the spread of the disease, which may materially and adversely affect or disrupt its production, resulting in an adverse effect on its results of operations. The spread of any severe communicable disease in the PRC may also affect the operations of the Group's customers and suppliers, which may have an adverse effect on the Group's financial condition and results of operations.

The PRC legal system is not fully developed and there are inherent uncertainties that could limit the legal protections available to investors in the Bonds.

The PRC legal system is based on written statutes and their interpretations by the Standing Committee of the National People's Congress. Prior court decisions may be cited only for reference. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, as well as the limited number of published cases and their non-binding nature, the interpretation and enforcement of these laws and regulations involve uncertainties.

By holding the Bonds, investors in the Bonds hold an indirect interest in the Company's operations in China, which are subject to PRC regulations governing PRC companies. These regulations contain provisions that are required to be included in the articles of association of PRC companies and are intended to regulate the

internal affairs of these companies. The PRC Company Law and these regulations, in general, and the provisions for the protection of the rights and access to information of the creditors of the Company, in particular, are less developed than those applicable to companies incorporated in Hong Kong, the United States and other developed countries or regions. Therefore, Bondholders may not enjoy all the protections that are available in more developed jurisdictions.

It may be difficult to effect service of process upon the Group, its Directors or executive officers who live in the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.

A majority of the Group's Directors and executive officers reside within the PRC, and substantially all of its assets and substantially all of the assets of those persons are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon the Group or those persons inside the PRC or to enforce against them in the PRC any judgments obtained from non-PRC courts.

China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts with the United States, the United Kingdom, Japan or most other developed countries. Therefore recognition and enforcement in China of judgments of a court in any of these jurisdictions in relation to any matter not subject to a binding arbitration provision may be difficult or impossible.

PRC Government control of currency conversion may affect the value of investment in the Bonds.

The Renminbi currently is not a freely convertible currency. Presently, the Group's operations are primarily in China and the Group receives almost all of its revenues in Renminbi. Therefore, fluctuations in the Renminbi exchange rate against other currencies currently do not have a material impact on the results of the Group's operations. However, the foreign exchange risk impact will become more significant as the Group expands further into overseas markets in the future. Any plans to purchase raw materials as well as equipment from overseas vendors and the fact that the Company will be required to pay principal, interest and/or dividends in a currency other than Renminbi to holders of the Bonds will also increase its foreign-currency denominated obligations, which, in turn, expose it to greater foreign exchange risk.

As a result, the Group's results of operations are exposed to fluctuations in the Renminbi exchange rate against foreign currencies. The value of the Renminbi may fluctuate due to a number of factors. Since 1994, the conversion of Renminbi into foreign currencies, including the Hong Kong dollar and US dollar, has been based on the rate set by the PBOC and the official exchange rate for the conversion of Renminbi to US dollars has generally been stable. As of 21 July 2005, the Renminbi was no longer pegged to the US dollar but to a basket of currencies and since that date has appreciated by approximately 16%

Any future exchange rate volatility relating to the Renminbi may give rise to uncertainties in the value of the Group's net assets, earnings and dividends. An appreciation of the Renminbi may result in increased competition from foreign competitors; a devaluation of the Renminbi may adversely affect the value of its net assets, earnings and dividends in foreign currency terms.

The Company's PRC subsidiaries are subject to the PRC rules and regulations on currency conversion. The ability of the Company's PRC subsidiaries to pay dividends or make other distributions to it may be restricted by these PRC foreign exchange control restrictions. In addition, under PRC law its subsidiaries may only pay dividends out of distributable reserves as determined under PRC GAAP. As a result, its subsidiaries may not have sufficient or any distributable reserves to make dividend distributions to the Company in the future, including in periods in which their financial statements indicate that operations have been profitable. There can be no assurance that the relevant regulations will not be amended to the Group's disadvantage and that the ability of the Company's PRC subsidiaries to distribute dividends to the Company will not be adversely affected.

Under the existing foreign exchange regulations in the PRC, the Group may undertake current account foreign exchange transactions, including payment of interest or dividends, without prior approvals from the State Administration of Foreign Exchange (the “SAFE”) by producing commercial documents evidencing such transactions, provided that they are processed through designated banks licensed to engage in foreign currency transactions. However, foreign exchange transactions for capital account purposes, which may include direct overseas investment and various international loans, require the prior approvals of or registration with SAFE. If the Group is unable to obtain SAFE’s consent to convert Renminbi into foreign currencies for such purposes, its capital expenditure plan and, consequently, its results of operations and financial condition could be adversely affected.

If the favourable tax treatment that the Group currently receives is altered or eliminated, its business may be adversely affected.

The Group has benefited from favourable tax treatment from the PRC Government. The Company’s main operating subsidiaries, namely NGC and Gaote (each as defined in “Business”), being foreign invested enterprises, are entitled to exemptions from the PRC enterprise income tax for the first two years they start to make profit and at 50% discount of the then effective tax rate for three subsequent years. On 16 March 2007, the Fifth Plenary Session of the Tenth National People’s Congress passed the Corporate Income Tax Law of the People’s Republic of China (the “New Tax Law”) which came into effect on 1 January 2008 and the income tax rate is expected to gradually adjust to the standard rate of 25% over a five-year transition period. Foreign invested manufacturing enterprises which have not fully utilised their five-year tax holiday will be allowed to continue to receive the benefits of the full exemption or reduction in income tax rate during the five-year transition period. The New Tax Law also provides that “Technological Advanced Enterprises” will be subject to an income tax rate of 15%. On 14 April 2008, the Ministry of Science and Technology, the Ministry of Finance and the State Administration of Taxation of the PRC promulgated the Measures for the Administration of Recognition of Technologically Advanced Enterprises, which stipulates the conditions and procedures for companies to be recognised as “Technologically Advanced Enterprises”. NGC has applied to be considered “Technologically Advanced Enterprises” and other PRC subsidiaries of the Company may make applications in the future. However, there is no assurance that NGC or any of the other PRC subsidiaries will be recognised as “Technologically Advanced Enterprises” and accordingly be entitled to the 15% preferential income tax rate.

Risks Related to the Bonds, the Equity Swap and the Shares

The US dollar return on the Bonds may be adversely affected by changes in the exchange rates between the Renminbi and the US dollar.

The Bonds are US dollar settled debt instruments. Investors are required to pay the subscription money for the Bonds in US dollars based on the exchange rate between the Renminbi and the US dollar fixed on the pricing date of the Bonds. In addition, all amounts due from the Company under the Bonds, the Early Redemption Amount and the final redemption price of the Bonds, will be settled in US dollars at the prevailing exchange rate between the Renminbi and the US dollar at the time of payment. Accordingly, the US dollar return on the Bonds, or yield to maturity, will depend on the principal amount and the premium (or Early Redemption Amount) converted into US dollars at the prevailing exchange rate. Any volatility in the exchange rate during the term of the Bonds will affect the return on the Bonds, or yield to maturity, in US dollars. In particular, any devaluation of the Renminbi against the US dollar during the term of the Bonds will decrease the US dollar return on the Bonds and will result in the yield to maturity of the Bonds in US dollars being less than the stated yield to maturity of the Bonds, which is calculated in Renminbi. In the event of a material devaluation of the Renminbi against the US dollar, holders of the Bonds may not receive the full US dollar subscription money upon redemption of the Bonds.

Fluctuations in the Company's Share price may negatively impact on the Group's business and financial condition.

The Company has entered into a cash settled equity swap transaction dated 22 April 2008 in relation to Shares up to a value of approximately HK\$1,113 million (the “**Equity Swap**”) with the Swap Counterparty (as defined in “Subscription and Sale”). The Company’s intention in entering into the Equity Swap is to provide the Company with a hedge against an increase in its Share price above the initial price of HK\$13.6783. However, there can be no assurance that the Company’s Share price will continue to increase in the future or at all. For every one Hong Kong dollar movement in the Company’s Share price, the unrealised gain or loss to the Company arising from the Equity Swap (an unrealised gain to the Company if the Share price increases and an unrealised loss if the Share price decreases) is HK\$81,370,707. The maximum loss that may be incurred by the Company if its Share price decreases to zero is approximately HK\$1,113 million. Consequently, a significant decrease in the Share price may have an adverse effect on the Company’s business and financial condition. For details see “Subscription and Sale—Equity Swap”.

An active trading market for the Bonds may not develop.

The Bonds are a new issue of securities and there can be no assurance as to the liquidity of the Bonds or that an active trading market will develop. If such a market were to develop, the Bonds could trade at prices that may be higher or lower than the initial issue price depending on many factors, including prevailing interest rates, the Group’s operations and the market for similar securities. The Lead Manager is not obliged to make a market in the Bonds and any such market making, if commenced, may be discontinued at any time at the sole discretion of the Lead Manager. Future trading prices of the Bonds will depend on many factors, including, among other things:

- prevailing interest rates and interest rate volatility;
- the market for similar securities;
- the Group’s operating results;
- the publication of earnings estimates or other research reports and speculation in the press or investment community;
- the market price of the Shares;
- changes in the Group’s industry and competition; and
- general market and economic conditions.

The Company is primarily a holding company and payments in respect to the Bonds are effectively subordinated to liabilities and obligations of the Company's subsidiaries.

The ability of the Company to make payments in respect of the Bonds depends largely upon the receipt of dividends, distributions, interest payments or advances from its subsidiaries. The ability of such companies to pay dividends and other amounts to the Company may be subject to their profitability and to applicable laws and restrictions on the payment of dividends and other amounts contained in relevant financing and other arrangements. Payments with respect to the Bonds are effectively subordinated to all existing and future liabilities and obligations of each of the Company’s subsidiaries. Claims of creditors of such companies will have priority as to the assets of such companies over the Company and its creditors, including holders of the Bonds. As at 31 December 2007, on an audited basis, the Company had aggregated indebtedness of approximately RMB494 million of unsecured obligations at the subsidiary level.

The Company's subsidiaries are subject to restrictions on the payment of dividends and the repayment of inter-company loans or advances to the Company and its subsidiaries.

As a holding company, the Company depends on the receipt of dividends and the interest or principal payments on inter-company loans or advances from the Company's subsidiaries, including its PRC subsidiaries, to satisfy its obligations, including its obligations under the Bonds. The ability of the Company's subsidiaries to pay dividends and make payments on inter-company loans or advances to their shareholders is subject to, among other things, distributable earnings, cash flow conditions, restrictions contained in the articles of association of the Company's subsidiaries, applicable laws and restrictions contained in the debt instruments of such subsidiaries. In addition, if any of the Company's subsidiaries raises capital by issuing equity securities to third parties, dividends declared and paid with respect to such shares would not be available to the Company to make payments on the Bonds. These restrictions could reduce the amounts that the Company receives from its subsidiaries, which would restrict the Company's ability to meet its payment obligations under the Bonds.

PRC laws and regulations permit payment of dividends only out of net profits as determined in accordance with PRC accounting standards and regulations and such profits differ from profits determined in accordance with IFRS in certain significant respects, including the use of different bases of recognition of revenue and expenses. The Company's PRC subsidiaries are also required to set aside a portion of their after-tax profits according to PRC accounting standards and regulations to fund certain reserve funds that are not distributable as cash dividends. In practice, the Company's PRC subsidiaries may pay dividends once a year after the end of each financial year. As a result of such limitations, there could be timing limitations on payments from the Company's PRC subsidiaries to meet the Company's payment obligations required by the Bonds, and there could be restrictions on payments required to pay off the Bonds at maturity or as required for any early redemption.

The Group's PRC subsidiaries are required to pay a 10% withholding tax on the Company's behalf on the interest paid under any shareholders' loans. Under PRC regulations, the Company's PRC equity joint venture companies may borrow money from its non-PRC shareholders, provided that the sum of the cumulative amount of medium and long-term foreign debt plus the balance of short-term foreign debt borrowed by it shall be controlled within the spread between the total investment and the registered capital of such companies and such shareholder loans are required to be registered with SAFE. Prior to payment of interest and principal on any such shareholder loan, the PRC subsidiaries must present evidence of payment of the 10% withholding tax on the interest payable in any such shareholder loan and evidence of registration with SAFE, as well as any other documents that SAFE or its local branch may require.

As a result of the foregoing, there can be no assurance that it will have sufficient cash flow from dividends or payments on inter-company loans or advances from the Company's subsidiaries to satisfy its obligations under the Bonds.

Holders of the Bonds will bear the risk of fluctuations in the price of the Shares.

The market price of the Bonds at any time may be affected by fluctuations in the price of the Shares. The Shares are currently listed on the Hong Kong Stock Exchange. There can be no certainty as to the effect, if any, that future issues or sales of the Shares, or the availability of such Shares for future issue or sale, will have on the market price of the Shares prevailing from time to time and therefore on the price of the Bonds.

Sales of substantial numbers of Shares in the public market, or a perception in the market that such sales could occur, could adversely affect the prevailing market price of the Shares and the Bonds. The results of operations, financial condition, future prospects and business strategy of the Group could affect the value of the Shares. The trading price of the Shares will be influenced by the Group's operational results (which in turn are subject to the various risks to which its businesses and operations are subject) and by other factors such as changes in the regulatory environment that may affect the markets in which the Group operates and capital markets in general. Corporate events such as share sales, reorganisations, takeovers or share buy-backs may also adversely affect the value of the Shares. Any decline in the price of the Shares could adversely affect the market price of the Bonds.

The Company may be unable to redeem the Bonds.

On certain dates, including on a Change of Control (as defined in the “Terms and Conditions of the Bonds”) of the Company, on a delisting of the Shares, and at maturity the Company may (and at maturity, will) be required to redeem all or a portion of the Bonds. If such an event were to occur, the Company may not have sufficient cash and may not be able to arrange financing to redeem the Bonds in time, or on acceptable terms, or at all. The ability to redeem the Bonds in such event may also be limited by the terms of other debt instruments. Failure to repay, repurchase or redeem tendered Bonds by the Company would constitute an event of default under the Bonds, which may also constitute a default under the terms of other indebtedness of the Group.

Conversion of the Bonds will dilute the ownership interest of existing shareholders and could adversely affect the market price of the Shares.

The conversion of some or all of the Bonds will dilute the ownership interests of existing shareholders. Any sales in the public market of the shares issuable upon such conversion could adversely affect prevailing market prices for the shares. In addition, the conversion of the Bonds may encourage short selling of the shares by market participants.

Holders of the Bonds have limited anti-dilution protection.

The conversion price of the Bonds will be adjusted in the event that there is a sub-division, consolidation or re-denomination, rights issue, bonus issue, reorganisation, capital distribution or other adjustment including an offer or scheme that affects the Shares, but only in the circumstances and only to the extent provided in “Terms and Conditions of the Bonds—Conversion”. There is no requirement that there should be an adjustment for every corporate or other event that may affect the value of the Shares. Events in respect of which no adjustment is made may adversely affect the value of the Shares and, therefore, adversely affect the value of the Bonds.

Holders of the bonds will have no rights as holders of the Shares until the conversion of the Bonds.

Unless and until holders of the Bonds acquire the Shares upon conversion thereof, they will have no rights with respect to the Shares, including any voting rights or rights to receive any regular dividends or other distributions with respect to the Shares. Upon conversion of the Bonds, these holders of the Bonds will be entitled to exercise the rights of holders of the Shares only as to actions for which the applicable record date occurs after the date of the conversion.

TERMS AND CONDITIONS OF THE BONDS

The following, subject to amendment and save for other than the paragraphs in italics, are the Terms and Conditions of the Bonds which will appear on the reverse of each of the definitive certificates evidencing the Bonds:

The issue of the RMB1,996,300,000 aggregate principal amount of USD Settled Zero Coupon Convertible Bonds due 2011 (the “**Bonds**”, which term shall include, unless the context requires otherwise, any additional Bonds issued in accordance with Condition 15 and consolidated and forming a single series therewith) of China High Speed Transmission Equipment Group Co., Ltd. (the “**Issuer**”) and the right of conversion into Shares (as defined in Condition 6(A)(v), was authorised by a resolution of the Board of Directors of the Issuer passed on 22 April 2008. All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed (as defined below) from or against the Issuer shall be payable and settled in US dollars only in accordance with the provisions of these terms and conditions of the Bonds (the “**Conditions**”) and of the Trust Deed. The Bonds are constituted by a trust deed (as amended or supplemented from time to time, the “**Trust Deed**”) to be dated on or about 14 May 2008 (the “**Issue Date**”) made between the Issuer and The Bank of New York as trustee for the holders of the Bonds (the “**Trustee**”, which term shall, where the context so permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Deed) and are subject to the paying, conversion and transfer agency agreement to be dated on or about 14 May 2008 (as amended or supplemented from time to time, the “**Agency Agreement**”) with the Trustee, The Bank of New York as principal paying, conversion and transfer agent (the “**Principal Agent**”), The Bank of New York as registrar (the “**Registrar**”) and the other paying, conversion and transfer agents appointed under it (each a “**Paying Agent**”, “**Conversion Agent**”, “**Transfer Agent**” and together with the Registrar and the Principal Agent, the “**Agents**” (which shall, where applicable, include the Singapore Agent (as defined in Condition 18)) relating to the Bonds. References to the “**Principal Agent**”, “**Registrar**” and “**Agents**” below are references to the principal agent, registrar and agents for the time being for the Bonds. The statements in these Conditions include summaries of, and are subject to, the detailed provisions of the Trust Deed. Unless otherwise defined, terms used in these Conditions have the meaning specified in the Trust Deed. Copies of the Trust Deed and of the Agency Agreement are available for inspection during normal business hours at the registered office of the Trustee for the time being at One Canada Square, 40th Floor, London, E14 5AL, United Kingdom and at the specified offices for the time being of each of the Agents. The Bondholders (as defined below) are entitled to the benefit of and are bound by all the provisions of the Trust Deed and are deemed to have notice of all the provisions of the Agency Agreement applicable to them.

1. Status

The Bonds constitute direct, unsubordinated, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and shall at all times rank *pari passu* and without any preference or priority among themselves. The payment obligations of the Issuer under the Bonds shall, save for such exceptions as may be provided by mandatory provisions of applicable law and subject to Condition 4, at all times rank at least equally with all its other present and future unsecured and unsubordinated obligations.

2. Form, Denomination and Title

A. Form and Denomination

The Bonds are issued in registered form in the denomination of RMB100,000 each and integral multiples thereof, without coupons attached. A Bond certificate (each a “**Certificate**”) will be issued to each Bondholder in respect of its registered holding of Bonds. Each Bond and each Certificate will be numbered serially with an identifying number which will be recorded on the relevant Certificate and in the register of Bondholders (the “**Register**”) which the Issuer will procure to be kept by the Registrar.

Upon issue, the Bonds will initially be represented by the Global Certificate deposited with a common depository for, and representing Bonds registered in the name of a nominee of, Euroclear and Clearstream, Luxembourg. The Conditions are modified by certain provisions contained in the Global Certificate.

B. Title

Title to the Bonds passes only by transfer and registration in the register of Bondholders as described in Condition 3. The holder of any Bond will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest in it or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions “Bondholder” and (in relation to a Bond) “holder” mean the person in whose name a Bond is registered.

3. Transfers of Bonds; Issue of Certificates

A. Register

The Issuer will cause the Register to be kept at the specified office of the Registrar outside the United Kingdom and in accordance with the terms of the Agency Agreement on which shall be entered the names and addresses of the holders of the Bonds and the particulars of the Bonds held by them and of all transfers of the Bonds. Each Bondholder shall be entitled to receive only one Certificate in respect of its entire holding of Bonds.

B. Transfer

Subject to Conditions 3(E) and 3(F) and the terms of the Agency Agreement, a Bond may be transferred by delivery of the Certificate issued in respect of that Bond, with the form of transfer on the back duly completed and signed by the holder or his attorney duly authorised in writing, to the specified office of the Registrar or any of the Agents. No transfer of a Bond will be valid unless and until entered on the Register.

Transfers of interests in the Bonds evidenced by the Global Certificate will be effected in accordance with the rules of the relevant clearing systems.

C. Delivery of New Certificates

Each new Certificate to be issued upon a transfer of Bonds will, within seven business days of receipt by the Registrar or, as the case may be, any other relevant Agent of the original certificate and the form of transfer duly completed and signed, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder entitled to the Bonds (but free of charge to the holder and at the Issuer’s expense) to the address specified in the form of transfer. The form of transfer is available at the specified office of the Principal Agent.

Except in the limited circumstances described herein (see “The Global Certificate”), owners of interests in the Bonds will not be entitled to receive physical delivery of Certificates.

Where only part of a principal amount of the Bonds (being that of one or more Bonds) in respect of which a Certificate is issued is to be transferred or converted, a new Certificate in respect of the Bonds not so transferred or converted will, within seven business days of delivery of the original Certificate to the Registrar or other relevant Agent, be made available for collection at the specified office of the Registrar or such other relevant Agent or, if so requested in the form of transfer, be mailed by uninsured mail at the risk of the holder of the Bonds not so transferred or converted (but free of charge to the holder) to the address of such holder appearing on the Register.

For the purposes of this Condition 3 and Condition 6, “business day” shall mean a day other than a Saturday or Sunday on which banks are open for business in the city in which the specified office of the Registrar (if a Certificate is deposited with it in connection with a transfer or conversion) or the Agent with whom a Certificate is deposited in connection with a transfer or conversion, is located.

D. *Formalities Free of Charge*

Registration of a transfer of Bonds and issuance of new Certificates will be effected without charge by or on behalf of the Issuer or any of the Agents, but upon (i) payment (or the giving of such indemnity or security as the Issuer or any of the Agents may require) in respect of any tax or other governmental charges which may be imposed in relation to such transfer, (ii) the Registrar being satisfied in its absolute discretion with the documents of title or identity of the person making the application and (iii) the Issuer or the relevant Transfer Agent (after consultation with the Issuer if it so required) being satisfied that the regulations concerning transfer of Bonds have been complied with.

E. *Closed Periods*

No Bondholder may require the transfer of a Bond to be registered (i) during the period of seven days ending on (and including) the dates for payment of any principal pursuant to the Conditions; (ii) after a Conversion Notice (as defined in Condition 6(B)) has been delivered with respect to a Bond; or (iii) after a Relevant Event Redemption Notice (as defined in Condition 8(D)) has been deposited in respect of such Bond, each such period is a “Closed Period”.

F. *Regulations*

All transfers of Bonds and entries on the register of Bondholders will be made subject to the detailed regulations concerning transfer of Bonds scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Trustee and the Registrar. A copy of the current regulations will be mailed (free of charge to the Bondholder and at the expense of the Issuer) by the Registrar to any Bondholder upon request.

4. *Negative Pledge*

The Issuer undertakes that, so long as any of the Bonds remains outstanding (as defined in the Trust Deed), it will not, and will procure that none of its Subsidiaries will, create or permit to subsist or arise any Encumbrance upon the whole or any part of its present or future undertakings, assets or revenues (including any uncalled capital) to secure any Relevant Indebtedness or any guarantee of or indemnity in respect of any such Relevant Indebtedness, unless, at the same time or prior thereto according to the Bonds, the same Encumbrance as is created or subsisting to secure any such Relevant Indebtedness, guarantee or indemnity or according such other security as shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders.

In these Conditions

- (i) any reference to an “Encumbrance” is to a mortgage, charge, pledge, lien or other security interest securing any obligation of any person;
- (ii) any reference to “Relevant Indebtedness” is to any future and present indebtedness in the form of or represented by debentures, loan stock, bonds, notes, bearer participation certificates, depository receipts, certificates of deposit or other similar securities or instruments or by bills of exchange drawn or accepted for the purpose of raising money which are, or are issued with the intention that they should be, quoted, listed, ordinarily dealt in or traded on any stock exchange or over the counter or on any other securities market (whether or not initially distributed by way of private placement); and

(iii) any reference to a “Subsidiary” of any person is to:

- (a) any company or other business entity of which that person owns or controls (either directly or through one or more other Subsidiaries) more than 50% of the issued share capital or other ownership interest having ordinary voting power to elect directors, managers or trustees of such company or other business entity; or
- (b) any company or other business entity which at any time has its accounts consolidated with those of that person or which, under Cayman Islands or Hong Kong law, regulations or generally accepted accounting principles from time to time, should have its accounts consolidated with those of that person.

5. Interest

The Bonds do not bear interest unless, upon surrender in accordance with Condition 7, payment of the full amount due is improperly withheld or refused or unless default is otherwise made in respect of any such payment. In such event, such unpaid amount shall bear interest at the rate of 8.00% per annum (both before and after judgment) until whichever is the earlier of (i) the day on which all sums due in respect of such Bond are received by or on behalf of the relevant holder and (ii) the day seven days after the Trustee or the Principal Agent has notified Bondholders of receipt of all sums due in respect of all the Bonds up to that seventh day (except to the extent that there is failure in the subsequent payment to the relevant holder under these Conditions). If interest is required to be calculated for a period of less than one year, it will be calculated on the basis of a 360-day year of twelve 30-day months. Interest payable under this Condition will be paid in accordance with Condition 7.

6. Conversion

A. Conversion Right

- (i) *Conversion Period*: Subject as hereinafter provided, Bondholders have the right to convert their Bonds into Shares (as defined in Condition 6(A)(v) below) at any time during the Conversion Period referred to below.

The right of a Bondholder to convert any Bond into Shares is called the “Conversion Right”. Subject to and upon compliance with, the provisions of this Condition, the Conversion Right attaching to any Bond may be exercised, at the option of the holder thereof, at any time on and after 13 June 2008 up to the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on 30 April 2011 (but, except as provided in Condition 6(A)(iv), in no event thereafter) or if such Bond shall have been called for redemption by the Issuer before the Maturity Date (as defined in Condition 8(A)), then up to the close of business (at the place aforesaid) on a date no later than seven days (in the place aforesaid) prior to the date fixed for redemption thereof or if such Bond shall have been called for mandatory conversion by the Issuer, then up to the close of business (at the place aforesaid) on the deemed Conversion Date for mandatory conversion pursuant to Condition 8(B)(i) (the “Conversion Period”).

The number of Shares to be issued on conversion of a Bond will be determined by dividing the RMB principal amount of the Bond to be converted (translated into Hong Kong dollars at the fixed exchange rate of HK\$1.00 = RMB0.8968) by the Conversion Price in effect on the Conversion Date (both as hereinafter defined). A Conversion Right may only be exercised in respect of one or more Bonds. If more than one Bond held by the same holder is converted at any one time by the same holder, the number of Shares to be issued upon such conversion will be calculated on the basis of the aggregate RMB principal amount of the Bonds to be converted.

- (ii) *Fractions of Shares*: Fractions of Shares will not be issued on conversion and no cash adjustments will be made in respect thereof. However, if the Conversion Right in respect of more than one Bond is exercised at any one time such that Shares to be issued on conversion are to be registered in the same name, the number of such Shares to be issued in respect thereof shall be calculated on the basis of the aggregate RMB principal amount of such Bonds being so converted and rounded down to the nearest whole number of Shares. Notwithstanding the foregoing, in the event of a consolidation or re-classification of Shares by operation of law or otherwise occurring after 22 April 2008 which reduces the number of Shares outstanding, the Issuer will upon conversion of Bonds pay in cash the US Dollar Equivalent of a sum equal to such portion of the RMB principal amount of the Bond or Bonds evidenced by the Certificate deposited in connection with the exercise of Conversion Rights, aggregated as provided in Condition 6(A)(i) as corresponds to any fraction of a Share not issued as a result of such consolidation or re-classification aforesaid if such sum exceeds US\$10.00. Any such sum shall be paid not later than three Stock Exchange Business Days (as defined in Condition 6(B)(i)) after the relevant Conversion Date by means of a US dollar cheque drawn on a bank in New York City.
- (iii) *Conversion Price*: The price at which Shares will be issued upon conversion (the “Conversion Price”) will initially be HK\$17.78 per Share but will be subject to adjustment in the manner provided in Condition 6(C).
- (iv) *Revival and/or survival after Default*: Notwithstanding the provisions of Condition 6(A)(i), if (a) the Issuer shall default in making payment in full in respect of any Bond which shall have been called or put for redemption on the date fixed for redemption thereof, (b) any Bond has become due and payable prior to the Maturity Date by reason of the occurrence of any of the events under Condition 10 or (c) any Bond is not redeemed on the Maturity Date in accordance with Condition 8(A), the Conversion Right attaching to such Bond will revive and/or will continue to be exercisable up to, and including, the close of business (at the place where the Certificate evidencing such Bond is deposited for conversion) on the date upon which the full amount of the moneys payable in respect of such Bond has been duly received by the Principal Agent or the Trustee and notice of such receipt has been duly given to the Bondholders in accordance with Condition 16 and, notwithstanding the provisions of Condition 6(A)(i), any Bond in respect of which the Certificate and Conversion Notice are deposited for conversion prior to such date shall be converted on the relevant Conversion Date (as defined below) notwithstanding that the full amount of the moneys payable in respect of such Bond shall have been received by the Principal Agent or the Trustee before such Conversion Date or that the Conversion Period may have expired before such Conversion Date.
- (v) *Meaning of “Shares”*: As used in these Conditions, the expression “Shares” means ordinary shares of par value US\$0.01 each of the Issuer or shares of any class or classes resulting from any subdivision, consolidation or re-classification of those shares, which as between themselves have no preference in respect of dividends or of amounts payable in the event of any voluntary or involuntary liquidation or dissolution of the Issuer.

B. Conversion Procedure

- (i) *Conversion Notice*: To exercise the Conversion Right attaching to any Bond, the holder thereof must complete, execute and deposit at his own expense during normal business hours at the specified office of any Conversion Agent a notice of conversion (a “Conversion Notice”) in the form (for the time being current) obtainable from the specified office of each Agent, together with the relevant Certificate or if notice requiring redemption is to be given by the holder of such Bond pursuant to Condition 8(D) then up to the close of business (at the place aforesaid) on the day prior to the giving of such notice. Conversion Rights shall be exercised subject in each case to any applicable fiscal or other laws or regulations applicable in the jurisdiction in which the specified office of the Conversion Agent to whom the relevant Conversion Notice is delivered is located.

The conversion date in respect of a Bond (the “**Conversion Date**”) must fall at a time when the Conversion Right attaching to that Bond is expressed in these Conditions to be exercisable (subject to the provisions of Condition 6(A)(iv) above) and will be deemed to be the Stock Exchange Business Day (as defined below) immediately following the date of the surrender of the Certificate in respect of such Bond and delivery of such Conversion Notice and, if applicable, any payment to be made or indemnity given under these Conditions in connection with the exercise of such Conversion Right. A Conversion Notice once delivered shall be irrevocable and may not be withdrawn. “**Stock Exchange Business Day**” means any day (other than a Saturday or Sunday) on which The Stock Exchange of Hong Kong Limited (the “**Hong Kong Stock Exchange**”) or the Alternative Stock Exchange (as defined in Condition 6(C) below), as the case may be, is open for business for dealing in securities.

- (ii) *Stamp Duty etc.*: A Bondholder delivering a Certificate in respect of a Bond for conversion must pay to the relevant tax authorities any taxes and capital, stamp, issue and registration duties arising on conversion (other than any taxes or capital or stamp duties payable in the Cayman Islands, Hong Kong and, if relevant, in the place of the Alternative Stock Exchange, by the Issuer in respect of the allotment and issue of Shares and listing of the Shares on the Hong Kong Stock Exchange or the Alternative Stock Exchange on conversion) (the “**Taxes**”) and such Bondholder must pay all, if any, taxes arising by reference to any disposal or deemed disposal of a Bond in connection with such conversion. The Issuer will pay all other expenses arising on the issue of Shares on conversion of Bonds. The Bondholder (and, if applicable, the person other than the Bondholder to whom the Shares are to be issued) must provide the Agent with details of the amounts paid or payable by such Bondholders, to the relevant tax authorities by it in settlement of Taxes payable pursuant to this Condition 6(B)(ii). Neither the Trustee nor any Agent is under any obligation to determine whether the Issuer or a Bondholder is liable to pay any Taxes including capital, stamp, issue, registration or similar taxes and duties or the amounts payable (if any) in connection with this Condition 6(B)(ii) and shall not be liable for any failure by any Bondholder or the Issuer to make any such payment to the relevant tax authorities or the sufficiency or insufficiency of any amounts so paid.
- (iii) *Registration*: As soon as practicable, and in any event not later than five Stock Exchange Business Days (as defined above) after the Conversion Date, the Issuer will, in the case of Bonds converted on exercise of the Conversion Right and in respect of which a duly completed Conversion Notice has been delivered and the relevant Certificate and evidence that amounts payable by the relevant Bondholder have been or will be paid to the relevant tax authorities as required by Conditions 6(B)(i) and 6(B)(ii), register the person or persons designated for the purpose in the Conversion Notice as holder(s) of the relevant number of Shares in the Issuer’s share register and will, if the Bondholder has also requested in the Conversion Notice and to the extent permitted under the rules and procedures of the Central Clearing and Settlement System of Hong Kong (the “**CCASS**”) effective from time to time, take all necessary actions to deliver the relevant certificates for such Shares to the Bondholder’s nominee for deposit into the CCASS for so long as the Shares are listed on the Hong Kong Stock Exchange; or will make such certificate or certificates available for collection at the office of the Issuer’s share registrar in Hong Kong (currently Computershare Hong Kong Investor Services Limited) notified to Bondholders in accordance with Condition 16 or, if so requested in the relevant Conversion Notice, will cause its share registrar to mail (at the risk, and, if sent at the request of such person otherwise than by ordinary mail, at the expense, of the person to whom such certificate or certificates are sent) such certificate or certificates to the person and at the place specified in the Conversion Notice, together (in either case) with any other securities, property or cash required to be delivered upon conversion and such assignments and other documents (if any) as may be required by law to effect the transfer thereof, in which case a single certificate will be issued in respect of all Shares issued on conversion of Bonds subject to the same Conversion Notice and which are to be registered in the same name.

If the Conversion Date in relation to any Bond shall be on or after the record date for any issue, distribution, grant, offer or other event as gives rise to the adjustment of the Conversion Price pursuant to Condition 6(C) or 6(D), but before the relevant adjustment becomes effective under the relevant Condition, upon the relevant adjustment becoming effective the Issuer shall procure the issue to the converting Bondholder (or in accordance with the instructions contained in the Conversion Notice (subject to applicable exchange control or other laws or other regulations)), such additional number of Shares as, together with the Shares issued or to be issued on conversion of the relevant Bond, is equal to the number of Shares which would have been required to be issued on conversion of such Bond if the relevant adjustment to the Conversion Price had been made and become effective on or immediately after the relevant record date.

The person or persons specified for that purpose in the Conversion Notice will become the holder of record of the number of Shares issuable upon conversion with effect from the date he is or they are registered as such in the Issuer's register of members (the "**Registration Date**"). The Shares issued upon conversion of the Bonds will be fully-paid and in all respects rank pari passu with the Shares in issue on the relevant Registration Date. Save as set out in these Conditions, a holder of Shares issued on conversion of Bonds shall not be entitled to any rights the record date for which precedes the relevant Registration Date.

If the record date for the payment of any dividend or other distribution in respect of the Shares is on or after the Conversion Date in respect of any Bond, but before the relevant Registration Date (disregarding any retroactive adjustment of the Conversion Price referred to in this Condition 6(B)(iii) prior to the time such retroactive adjustment shall have become effective), the Issuer will pay to the converting Bondholder or his designee the US Dollar Equivalent of an amount (the "**Equivalent Amount**") equal to the Fair Market Value (as defined below) of any such dividend or other distribution to which he would have been entitled had he on that record date been such a shareholder of record and will make the payment at the same time as it makes payment of the dividend or other distribution, or as soon as practicable thereafter, but, in any event, not later than seven days thereafter. The Equivalent Amount shall be paid by means of a US dollar cheque drawn on a bank in New York City and sent to the address specified in the relevant Conversion Notice.

C. Adjustments to Conversion Price

The Conversion Price will be subject to adjustment in the following events:

- (1) *Consolidation, Subdivision or Reclassification:* If and whenever there shall be an alteration to the nominal value of the Shares as a result of consolidation, subdivision or reclassification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such alteration by the following fraction:

$$\frac{A}{B}$$

Where:

A is the nominal amount of one Share immediately after such alteration; and

B is the nominal amount of one Share immediately before such alteration.

Such adjustment shall become effective on the date the alteration takes effect.

(2) *Capitalisation of Profits or Reserves:*

- (i) If and whenever the Issuer shall issue any Shares credited as fully paid to the holders of Shares (“**Shareholders**”) by way of capitalisation of profits or reserves (including any share premium account), including Shares paid up out of distributable profits or reserves and/or share premium account (except any Scrip Dividend) and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A}{B}$$

Where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;
and

B is the aggregate nominal amount of the issued Shares immediately after such issue.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

- (ii) In the case of an issue of Shares by way of a Scrip Dividend where the Current Market Price of such Shares on the last Trading Day preceding the date of announcement of the terms of such issue exceeds the amount of the Relevant Cash Dividend or the relevant part thereof and which would not have constituted a Capital Distribution, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before the issue of such Shares by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

A is the aggregate nominal amount of the issued Shares immediately before such issue;

B is the aggregate nominal amount of Shares issued by way of such Scrip Dividend multiplied by a fraction of which (i) the numerator is the amount of the whole, or the relevant part, of the Relevant Cash Dividend and (ii) the denominator is such Current Market Price of the Shares issued by way of Scrip Dividend in respect of each existing Share in lieu of the whole, or the relevant part, of the Relevant Cash Dividend; and

C is the aggregate nominal amount of Shares issued by way of such Scrip Dividend;

or by making such other adjustment as an Independent Investment Bank shall certify to the Trustee is fair and reasonable.

Such adjustment shall become effective on the date of issue of such Shares or if a record date is fixed therefor, immediately after such record date.

(3) *Capital Distributions:*

If and whenever the Issuer shall pay or make any Capital Distribution to the Shareholders (except to the extent that the Conversion Price falls to be adjusted under Condition 6(C)(2) above), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such Capital Distribution by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which the Capital Distribution is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the Capital Distribution attributable to one Share.

Such adjustment shall become effective on the date that such Capital Distribution is actually made or if a record date is fixed therefor, immediately after such record date.

In making any calculation for this Condition 6(C)(3), such adjustments (if any) shall be made as an Independent Investment Bank may consider appropriate to reflect (a) any consolidation or subdivision of the Shares, (b) issues of Shares by way of capitalisation of profits or reserves, or any like or similar event, (c) the modification of any rights to dividends of Shares or (d) any change in the fiscal year of the Issuer.

- (4) *Rights Issues of Shares or Options over Shares:* If and whenever the Issuer shall issue Shares to all or substantially all Shareholders as a class by way of rights, or issue or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any Shares, in each case at less than the Current Market Price per Share on the last Trading Day preceding the date of the announcement of the terms of the issue or grant, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such announcement;
- B is the number of Shares which the aggregate amount (if any) payable for the Shares issued by way of rights or for the options or warrants or other rights issued by way of rights and for the total number of Shares comprised therein would subscribe for, purchase or otherwise acquire at such Current Market Price per Share; and
- C is the aggregate number of Shares issued or, as the case may be, comprised in the issue or grant.

Such adjustment shall become effective on the date of issue of such Shares or issue or grant of such options, warrants or other rights (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

- (5) *Rights Issues of Other Securities:* If and whenever the Issuer shall issue any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares) to all or substantially all Shareholders as a class by way of rights or grant to all or substantially all Shareholders as a class by way of rights, options, warrants or other rights to subscribe for, purchase or otherwise acquire any securities (other than Shares or options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue or grant by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue or grant is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue of the securities or grant of such rights, options or warrants (as the case may be) or where a record date is set, the first date on which the Shares are traded ex-rights, ex-options or ex-warrants, as the case may be.

- (6) *Issues at less than Current Market Price:* If and whenever the Issuer shall issue (otherwise than as mentioned in Condition 6(C)(4) above) wholly for cash any Shares (other than Shares issued on the exercise of Conversion Rights or on the exercise of any other rights of conversion into, or exchange or subscription for, Shares) or the issue or grant (otherwise than as mentioned in Condition 6(C)(4) above) wholly for cash of any options, warrants or other rights to subscribe for, purchase or otherwise acquire Shares in each case at a price per Share which is less than the Current Market Price on the last Trading Day preceding the date of announcement of the terms of such issue, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

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

References to additional Shares in the above formula shall, in the case of an issue by the Issuer of options, warrants or other rights to subscribe or purchase Shares, mean such Shares to be issued assuming that such options, warrants or other rights are exercised in full at the initial exercise price on the date of issue of such options, warrants or other rights.

Such adjustment shall become effective on the date of issue of such additional Shares or, as the case may be, the issue or grant of such options, warrants or other rights.

- (7) *Other Issues at less than Current Market Price:* Save in the case of an issue of securities arising from a conversion or exchange of other securities in accordance with the terms applicable to such securities themselves falling within this Condition 6(C)(7), if and whenever the Issuer or any of its Subsidiaries (otherwise than as mentioned in Conditions 6(C)(4), 6(C)(5) or 6(C)(6)), or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries) any other company, person or entity shall issue any securities (other than the Bonds) which by their terms of issue carry rights of conversion into, or exchange or subscription for, Shares to be issued by the Issuer upon conversion, exchange or subscription at a consideration per Share which is less than the Current Market Price on the last Trading Day preceding the date of announcement of the terms of issue of such securities, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such issue;
- B is the number of Shares which the aggregate consideration receivable by the Issuer for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to such securities would purchase at such Current Market Price per Share; and
- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the initial conversion, exchange or subscription price or rate.

Such adjustment shall become effective on the date of issue of such securities.

- (8) *Modification of Rights of Conversion etc.:* If and whenever there shall be any modification of the rights of conversion, exchange or subscription attaching to any such securities as are mentioned in Condition 6(C)(7) (other than in accordance with the terms of such securities) so that the consideration per Share (for the number of Shares available on conversion, exchange or subscription following the modification) is less than the Current Market Price on the last Trading Day preceding the date of announcement of the proposals for such modification, the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such modification by the following fraction:

$$\frac{A + B}{A + C}$$

Where:

- A is the number of Shares in issue immediately before such modification;
- B is the number of Shares which the aggregate consideration receivable by the Issuer for the Shares to be issued on conversion or exchange or on exercise of the right of subscription attached to the securities so modified would purchase at such Current Market Price per Share or, if lower, the existing conversion, exchange or subscription price of such securities; and

- C is the maximum number of Shares to be issued on conversion or exchange of such securities or on the exercise of such rights of subscription attached thereto at the modified conversion, exchange or subscription price or rate but giving credit in such manner as an Independent Investment Bank, considers appropriate (if at all) for any previous adjustment under this Condition 6(C)(8) or Condition 6(C)(7).

Such adjustment shall become effective on the date of modification of the rights of conversion, exchange or subscription attaching to such securities.

- (9) *Other Offers to Shareholders*: If and whenever the Issuer or any of its Subsidiaries or (at the direction or request of or pursuant to any arrangements with the Issuer or any of its Subsidiaries) any other company, person or entity issues, sells or distributes any securities in connection with an offer pursuant to which the Shareholders generally are entitled to participate in arrangements whereby such securities may be acquired by them (except where the Conversion Price falls to be adjusted under Condition 6(C)(4), Condition 6(C)(5), Condition 6(C)(6) or Condition 6(C)(7)), the Conversion Price shall be adjusted by multiplying the Conversion Price in force immediately before such issue, sale or distribution by the following fraction:

$$\frac{A - B}{A}$$

Where:

- A is the Current Market Price of one Share on the last Trading Day preceding the date on which such issue is publicly announced; and
- B is the Fair Market Value on the date of such announcement of the portion of the rights attributable to one Share.

Such adjustment shall become effective on the date of issue, sale or distribution of the securities.

- (10) *Other Events*: If the Issuer determines that an adjustment should be made to the Conversion Price as a result of one or more events or circumstances not referred to in this Condition 6, the Issuer shall, at its own expense, consult an Independent Investment Bank, to determine as soon as practicable what adjustment (if any) to the Conversion Price is fair and reasonable to take account thereof, if the adjustment would result in a reduction in the Conversion Price, and the date on which such adjustment should take effect and upon such determination by the Independent Investment Bank such adjustment (if any) shall be made and shall take effect in accordance with such determination, provided that where the events or circumstances giving rise to any adjustment pursuant to this Condition 6 have already resulted or will result in an adjustment to the Conversion Price or where the events or circumstances giving rise to any adjustment arise by virtue of events or circumstances which have already given rise or will give rise to an adjustment to the Conversion Price, such modification (if any) shall be made to the operation of the provisions of this Condition 6 as may be advised by the Independent Investment Bank to be in their opinion appropriate to give the intended result.

For the purposes of these Conditions:

“**Alternative Stock Exchange**” means at any time, in the case of the Shares, if they are not at that time listed and traded on the Hong Kong Stock Exchange, the principal stock exchange or securities market on which the Shares are then listed or quoted or dealt in.

“Capital Distribution” means any dividend or distribution (whether of cash or assets in specie) by the Issuer for any financial period (whenever paid or made and however described) (and for these purposes a distribution of assets in specie includes without limitation an issue of Shares or other securities credited as fully or partly paid (other than Shares credited as fully paid to the extent an adjustment to the Conversion Price is made in respect thereof under Condition 6(C)(2)(i)) by way of capitalisation of reserves, and including any Scrip Dividend to the extent of the Relevant Cash Dividend).

“Closing Price” for the Shares for any Trading Day shall be the price published in the Daily Quotation Sheet published by the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange for such day.

“Current Market Price” means, in respect of a Share at a particular date, the arithmetic average of the daily Closing Price for one Share (being a Share carrying full entitlement to dividend) for the ten consecutive Trading Days ending on the Trading Day immediately preceding such date, provided that if at any time during the said ten Trading Day period the Shares shall have been quoted ex-dividend and during some other part of that period the Shares shall have been quoted cum-dividend then:

- (i) if the Shares to be issued in such circumstances do not rank for the dividend in question, the quotations on the dates on which the Shares shall have been based on a price cum-dividend shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the Fair Market Value of the amount of that dividend per Share; or
- (ii) if the Shares to be issued in such circumstances rank for the dividend in question, the quotations on the dates on which the Shares shall have been based on a price ex-dividend shall for the purpose of this definition be deemed to be the amount thereof increased by an amount equal to the Fair Market Value of the amount of that dividend per Share;

and provided further that if the Shares on each of the said ten Trading Days have been quoted cum-dividend in respect of a dividend which has been declared or announced but the Shares to be issued do not rank for that dividend, the quotations on each of such dates shall for the purpose of this definition be deemed to be the amount thereof reduced by an amount equal to the amount of that dividend per Share.

“Fair Market Value” means, with respect to any assets, security, option, warrants or other right on any date, the fair market value of that asset, security, option, warrant or other right as determined by an Independent Investment Bank, provided that (i) the fair market value of a cash dividend paid or to be paid per Share shall be the amount of such cash dividend per Share determined as at the date of announcement of such dividend; (ii) where options, warrants or other rights are publicly traded in a market of adequate liquidity (as determined by such Independent Investment Bank) the fair market value of such options, warrants or other rights shall equal the arithmetic mean of the daily closing prices of such options, warrants or other rights during the period of ten trading days on the relevant market commencing on the first such trading day such options, warrants or other rights are publicly traded.

“Independent Investment Bank” means an independent investment bank of international repute (acting as expert) selected by the Issuer and approved by the Trustee.

“Relevant Cash Dividend” means any cash dividend specifically declared by the Issuer.

“Scrip Dividend” means any Shares issued in lieu of the whole or any part of any Relevant Cash Dividend being a dividend which the Shareholders concerned would or could otherwise have received and which would not have constituted a Capital Distribution (and for the avoidance of doubt to the extent that no adjustment is to be made under Condition 6(C)(3) in respect of the amount by which the Current Market Price of the Shares on the last Trading Day preceding the date of announcement of the terms of such issue

exceeds the Relevant Cash Dividend or part thereof) but without prejudice to any adjustment required in such circumstances to be made under Condition 6(C)(2).

“**Trading Day**” means a day when the Hong Kong Stock Exchange or, as the case may be, an Alternative Stock Exchange, is open for dealing business, provided that if no Closing Price is reported for one or more consecutive dealing days such day or days will be disregarded in any relevant calculation and shall be deemed not have existed when ascertaining any period of dealing days.

“**Volume Weighted Average Price**” means, in respect of a Share, on any Trading Day, the order book volume-weighted average price of a Share published by or derived from Bloomberg page 658:HK or such other source as shall be determined to be appropriate by an Independent Investment Bank on such Trading Day.

On any adjustment, the relevant Conversion Price, if not an integral multiple of one Hong Kong cent, shall be rounded down to the nearest Hong Kong cent. No adjustment shall be made to the Conversion Price where such adjustment (rounded down if applicable) would be less than 1% of the Conversion Price then in effect. Any adjustment not required to be made, and any amount by which the Conversion Price has not been rounded down, shall be carried forward and taken into account in any subsequent adjustment. Notice of any adjustment shall be given to Bondholders in accordance with Condition 16 as soon as practicable after the determination thereof.

The Conversion Price may not be reduced so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value.

Where more than one event which gives or may give rise to an adjustment to the Conversion Price occurs within such a short period of time that in the opinion of an Independent Investment Bank, the foregoing provisions would need to be operated subject to some modification in order to give the intended result, such modification shall be made to the operation of the foregoing provisions as may be advised by such Independent Investment Bank to be in their opinion appropriate in order to give such intended result.

No adjustment will be made to the Conversion Price when Shares or other securities (including rights or options) are issued, offered or granted to employees (including directors) of the Issuer or any Subsidiary of the Issuer pursuant to any Employee Share Scheme (as defined in the Trust Deed) (and which Employee Share Scheme is in compliance with the listing rules of the Hong Kong Stock Exchange or, if applicable, those of an Alternative Stock Exchange).

No adjustment involving an increase in the Conversion Price will be made, except in the case of a consolidation of the Shares as referred to in Condition 6(C)(1) above.

The Trustee and the Agents shall not be under any duty to monitor whether any event or circumstance has happened or exists which may require an adjustment to be made to the Conversion Price or any calculation in connection with the Conversion Price and will not be responsible to Bondholders for any loss arising from any failure by it to do so.

The Trustee may, when required pursuant to these Conditions to do so, give any determination or consent or reach any opinion or exercise its discretion on the terms of the Trust Deed provided that nothing shall oblige it to do so unless it shall have been directed by an Extraordinary Resolution of Bondholders and indemnified and/or secured and/or prefunded to its satisfaction.

The Trustee and the Agents are under no obligation to perform, monitor or verify the calculations required pursuant to these Conditions and shall be entitled to rely on without further investigation or liability all calculations, reports, opinions and determinations reached or made by the Issuer and the Independent

Investment Bank. The Trustee and the Agents shall not be responsible or liable to the Bondholders for any loss arising from any such failure or reliance or for any delay of the Issuer in making any calculation or for the Issuer making any erroneous determination.

If Bondholders, holding not less than 5% of the Bonds then outstanding, shall request in writing an explanation of the adjustment to the Conversion Price, the Issuer shall at its expense and at the request of the Trustee, acting on the written instructions of such Bondholders, and as soon as practicable, provide the Trustee with a certificate signed by two directors or other duly authorised officers of the Issuer setting out the method by which the adjustment is calculated and a certificate of an Independent Investment Bank certifying the relevant adjustment and the calculation thereof to the Conversion Price and such a certificate shall be conclusive and binding on all concerned.

D. Conversion Upon Change of Control

If a Change of Control (as defined in Condition 8(H)) shall have occurred, the Issuer shall give notice of that fact to the Bondholders (the “**Change of Control Notice**”) in accordance with Condition 16 within five days after it becomes aware of such Change of Control. Following the giving of a Change of Control Notice, upon any exercise of Conversion Rights such that the relevant Conversion Date falls within 30 days following a Change of Control, or, if later, 30 days following the date on which the Change of Control Notice is given to Bondholders (such period, the “**Change of Control Conversion Period**”), the Conversion Price shall be adjusted in accordance with the following formula:

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

Where:

NCP is the Conversion Price after such adjustment;

OCP is for the purposes of this Condition 6(D) the Conversion Price applicable on the relevant Conversion Date in respect of any conversion pursuant to this Condition 6(D);

Conversion Premium (“CP”) is 30% expressed as a fraction;

c is the number of days from and including the first day of the Change of Control Conversion Period to but excluding 14 May 2011; and

t is the number of days from and including 14 May 2008 to but excluding 14 May 2011,

provided that the Conversion Price shall not be reduced pursuant to this Condition 6(D) so that, on conversion of Bonds, Shares would fall to be issued at a discount to their par value.

E. Undertakings

The Issuer has undertaken in the Trust Deed, inter alia, that so long as any Bond remains outstanding, save with the approval of an Extraordinary Resolution (as defined in the Trust Deed) of the Bondholders:

- (i) it will use its best endeavours (a) to maintain a listing for all the issued Shares on the Hong Kong Stock Exchange, and (b) to obtain and maintain a listing for all the Shares issued on the exercise of the Conversion Rights attaching to the Bonds on the Hong Kong Stock Exchange, and if the

Issuer is unable to obtain or maintain such listing, to use its best endeavours to obtain and maintain a listing for all the issued Shares on an Alternative Stock Exchange as from time to time selected by the Issuer and approved by an Extraordinary Resolution of the Bondholders and will forthwith give notice to the Bondholders in accordance with Condition 16 below of the listing or delisting of the Shares (as a class) by any such stock exchange;

- (ii) it will use its best endeavours to maintain the listing of the Bonds on the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) and if the Issuer is unable to maintain such listing, to use its best endeavours to obtain and maintain a listing on another internationally recognised stock exchange as approved by an Extraordinary Resolution of the Bondholders and will forthwith give notice to the Bondholders in accordance with Condition 16 below of the listing or delisting of the Bonds by any such stock exchange;
- (iii) it will pay the expenses of the issue of, and all expenses of obtaining listing for, Shares arising on conversion of the Bonds; and
- (iv) it will not make any reduction of its issued Shares or any uncalled liability in respect thereof or of any share premium account or capital redemption reserve fund except, in each case, where the reduction is permitted by law and results in (or would but for these Conditions relating to rounding or the carry forward of adjustments result in) an adjustment in the Conversion Price provided always that the Issuer shall not be prohibited from purchasing its Shares to the extent permitted by law).

In the Trust Deed, the Issuer has also undertaken with the Trustee that so long as any Bond remains outstanding:

- (i) it will reserve, free from any other pre-emptive or other similar rights, out of its authorised but unissued Shares the full number of Shares liable to be issued on conversion of the Bonds from time to time remaining outstanding and shall ensure that all Shares delivered on conversion of the Bonds will be duly and validly issued as fully-paid and non-assessable; and
- (ii) it will not make any offer, issue, grant or distribute or take any action the effect of which would be to reduce the Conversion Price below the par value of the Shares of the Issuer.

The Issuer has also given certain other undertakings in the Trust Deed for the protection of the Conversion Rights.

F. *Notice of Change in Conversion Price*

The Issuer shall give notice to the Bondholders in accordance with Condition 16 of any change in the Conversion Price. Any such notice relating to a change in the Conversion Price shall set forth the event giving rise to the adjustment, the Conversion Price prior to such adjustment, the adjusted Conversion Price and the effective date of such adjustment.

7. *Payments*

A. *US Dollar Settlement*

All amounts due under, and all claims arising out of or pursuant to, the Bonds and/or the Trust Deed from or against the Issuer shall be payable and settled in US dollars only.

For the purposes of these Conditions, “**US Dollar Equivalent**” means:

- (i) in respect of a Renminbi-denominated amount that, but for this Condition 7(A), would be due under the Bonds, in Renminbi, the Renminbi amount converted into US dollars using the Spot Rate for the relevant Rate Calculation Date; and
- (ii) in respect of a HK dollar-denominated amount, that, but for this Condition 7(A), would be due under the Bonds, in HK dollars, the HK dollar amount converted into US dollars using the Spot Rate for the relevant Rate Calculation Date.

For this purpose:

“**Business Day**” means, in relation to Beijing (for determining the US Dollar Equivalent of a Renminbi-denominated amount) or Hong Kong (for determining the US Dollar Equivalent of a HK dollar-denominated amount), a day (other than a Saturday or Sunday) on which commercial banks are open for general business (including dealings in foreign exchange) in such place and in New York City;

“**Rate Calculation Date**” means the day which is two Business Days before the due date of the relevant amount under these Conditions;

“**Reference Dealers**” means four leading dealers engaged in the foreign exchange market of the relevant currency selected by the Issuer; and

“**Spot Rate**”, for each Rate Calculation Date, means a rate determined by the Issuer in good faith as follows:

- (a) in respect of the US Dollar Equivalent of a Renminbi-denominated amount, the RMB/US dollar official fixing rate, expressed as the amount of Renminbi per one US dollar, reported by the People’s Bank of China which appears on the Reuters Screen “SAEC” Page opposite the symbol “USDCNY” page at or about 9:15 am (Beijing time) on the Rate Calculation Date;
- (b) in respect of the US Dollar Equivalent of a HK dollar-denominated amount, the bid exchange rate, expressed as the amount of HK dollars per one US dollar, which appears on the relevant Reuters HKDFIX page at 11:00 a.m. (Hong Kong time) on the Rate Calculation Date;
- (c) if no such rate is available under sub-paragraph (a) or (b), the spot rate determined by the Issuer in good faith on the basis of quotations provided by the Reference Dealers of the specified exchange rate for the Rate Calculation Date as obtained in accordance with the provisions below; and
- (d) if fewer than two quotations are provided under sub-paragraph (c), the exchange rate for the Rate Calculation Date as shall be determined by an Independent Investment Bank in good faith.

In determining the spot rate under sub-paragraph (c), the Issuer will request the Beijing (for determining the US Dollar Equivalent of a Renminbi-denominated amount) or Hong Kong (for determining the US Dollar Equivalent of a HK dollar-denominated amount) office of each of the Reference Dealers to provide a quotation of what the specified screen rate would have been had it been published, reported or available for the Rate Calculation Date, based upon each Reference Dealer’s experience in the foreign exchange market for Renminbi or HK dollars (as applicable) and general activity in such market on the Rate Calculation Date. The quotations used to determine the Spot Rate for a Rate Calculation Date will be determined in each case for such Rate Calculation Date, and will be requested at 9:15 a.m. (Beijing time) or 11:00 a.m. (Hong Kong time), as applicable, on such Rate Calculation Date or as soon as practicable after it is determined that the specified screen rate was not available.

If four quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the rates, without regard to the rates having the highest and lowest value. For this purpose, if more than one quotation has the same highest value or lowest value, then the rate of only one of such quotations shall be disregarded. If two or three quotations are provided, the rate for a Rate Calculation Date will be the arithmetic mean of the rates provided.

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of the provisions of this Condition 7, whether by the Reference Dealers (or any of them), the Issuer or the Independent Investment Bank, will (in the absence of willful default, bad faith or manifest error) be binding on the Issuer, the Trustee, the Agents and all Bondholders.

B. *Principal, premium and interest*

Payment of principal, interest (if any), premium and any other amount due will be made by transfer to the registered account of the Bondholder or by US dollar cheque drawn on a bank in New York City mailed to the registered address of the Bondholder in accordance with Condition 16 if it does not have a registered account. Payment of principal and premium will only be made after surrender of the relevant Certificate at the specified office of any of the Agents.

References in these Conditions, the Trust Deed and the Agency Agreement to principal in respect of any Bond shall, where the context so permits, be deemed to include a reference to any premium payable thereon.

If an amount which is due on the Bonds is not paid in full, the Registrar will annotate the Register with a record of the amount (if any) in fact paid.

C. *Registered Accounts*

For the purposes of this Condition, a Bondholder's registered account means the US dollar account maintained by or on behalf of it with a bank in New York City, details of which appear on the Register at the close of business on the second business day (as defined below) before the due date for payment, and a Bondholder's registered address means its address appearing on the Register at that time.

D. *Fiscal Laws*

All payments are subject in all cases to any applicable laws and regulations in the place of payment, but without prejudice to the provisions of Condition 9. No commissions or expenses shall be charged to the Bondholders in respect of such payments.

E. *Payment Initiation*

Where payment is to be made by transfer to a registered account, payment instructions (for value on the due date or, if that is not a business day (as defined below), for value on the first following day which is a business day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed (at the risk and, if mailed at the request of the holder otherwise than by ordinary mail, expense of the holder) on the due date for payment (or, if it is not a business day, the immediately following business day) or, in the case of a payment of principal, if later, on the business day on which the relevant Certificate is surrendered at the specified office of an Agent.

F. *Delay In Payment*

Bondholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a business day, if the Bondholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

G. *Business Day*

In this Condition 7, “**business day**” means a day other than a Saturday or Sunday on which commercial banks are open for business in New York City and the city in which the specified office of the Principal Agent is located and, in the case of the surrender of a Certificate, in the place where the Certificate is surrendered.

8. Redemption, Mandatory Conversion, Purchase and Cancellation

A. *Maturity*

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Issuer will redeem each Bond at an amount equal to the US Dollar Equivalent of its RMB principal amount multiplied by 109.3443% on 14 May 2011 (the “**Maturity Date**”). The Issuer may not redeem the Bonds at its option prior to that date except as provided in Condition 8(B) or Condition 8(C) below (but without prejudice to Condition 10).

B. *Mandatory Conversion and Redemption at the Option of the Issuer*

- (i) On or at any time after 14 May 2010 and prior to the Maturity Date, the Issuer may, having given not less than 30 nor more than 60 days’ notice to the Bondholders, the Principal Agent and the Trustee (which notice will be irrevocable) (the “**Mandatory Conversion Notice Period**”), mandatorily convert all or some only of the Bonds for the time being outstanding into Shares provided that the closing price of the Shares (as derived from the Daily Quotations Sheet of the Hong Kong Stock Exchange or, as the case may be, the equivalent quotation sheet of an Alternative Stock Exchange) translated into Renminbi at the Prevailing Rate applicable to the relevant Trading Day, for 20 out of 30 consecutive Trading Days, the last day of such 30 Trading Day period falling within five Trading Days prior to the date upon which notice of such Conversion is given, was at least 120% of the applicable Early Redemption Amount in effect on such Trading Day divided by the Conversion Ratio.

If there shall occur an event giving rise to a change in the Conversion Price during any such 20 Trading Day period, appropriate adjustments for the relevant days shall be made, as determined by the Independent Investment Bank, for the purpose of calculating the closing price for such days.

The Issuer’s right to mandatorily convert under this Condition does not affect a holder’s right to exercise its Conversion Right or its redemption right under 8(D) hereunder (which shall remain in full force and effect during the Mandatory Conversion Notice Period) provided that in no event shall the Conversion Date or Relevant Event Redemption Date (as defined below), as the case may be, fall after the deemed Conversion Date for mandatory conversion specified in the paragraph below.

Upon the expiry of the Mandatory Conversion Notice Period, the Bondholders shall be deemed to have exercised their Conversion Rights, the date of expiry of such period shall be deemed to be the Conversion Date, and the Issuer will be bound to convert the Bonds to which such notice relates into Shares in accordance with Condition 6.

If on the expiry of the Mandatory Conversion Notice Period, Conversion Notices have not been received by a Conversion Agent in respect of any Bonds outstanding (“**Relevant Bonds**”), the Relevant Bonds shall be converted into Shares in accordance with these Conditions at the applicable Conversion Price and such Shares together with any other cash required to be delivered upon conversion and other documents (if any) as may be required by law to effect the transfer thereof) shall be delivered to a person (the “**Relevant Person**”) selected by the Issuer and approved by the Trustee. The Issuer shall procure that all of the Shares delivered, or to be delivered, on such conversion shall be sold by, or on behalf of, the Relevant Person as soon as practicable in accordance with the advice of and at the times deemed appropriate by the Independent Investment Bank selected by the Issuer and approved by the Trustee, and (subject to any necessary consents being obtained, and to the deduction by the Relevant Person of any amount payable in respect of its liability to taxation and the payment of any capital, stamp, transfer, issue or registration taxes and duties (if any) and any fees or costs incurred by or on behalf of the Relevant Person in connection with the issue, allotment, transfer, delivery and sale thereof) the US Dollar Equivalent of the net proceeds of sale together with accrued interest, and any cash in lieu of fractions and any other amount payable by the Issuer in respect of the relevant exercise in respect of the Relevant Bonds shall be paid to the Bondholders in accordance with Condition 7 within ten days of the date of the last sale of such Shares (and shall immediately notify the Trustee of such payment), upon which such US Dollar Equivalent of the net proceeds shall be distributed rateably to the holders of such Relevant Bonds.

The Trustee and the Issuer shall have no responsibility to any person for the manner in which such sale is effected or if the aggregate sale proceeds fall short of the principal amount of the Relevant Bonds. The Trustee shall have no liability in respect of the approval of any person holding the Shares or any investment bank conducting a sale or the timing of such exercise or in respect of any such sale of Shares whether for the timing of any such sale or the price at which any such Shares are sold, or the inability to sell any such Shares or otherwise.

In the case of a mandatory conversion of some only of the Bonds pursuant to this Condition 8(B)(i), the Bonds to be converted will be selected individually by lot by the Principal Agent, in such place as the Trustee shall approve and in such manner as the Trustee shall deem to be appropriate and fair, prior to the Issuer giving the mandatory conversion notice to the Bondholders pursuant to this Condition 8(B)(i).

- (ii) On or at any time prior to the Maturity Date, the Issuer may, having given not less than 30 nor more than 60 days’ notice to the Bondholders and the Trustee (which notice will be irrevocable), redeem all and not some only of the Bonds for the time being outstanding at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount on the redemption date if at least 90% in principal amount of the Bonds originally issued (including any bonds issued in accordance with Condition 15) has already been converted, redeemed or purchased and cancelled.

C. Redemption for Taxation Reasons

- (i) At any time the Issuer may, having given not less than 30 nor more than 60 days’ notice (a “**Tax Redemption Notice**”) to the Trustee, the Principal Agent and the Bondholders in accordance with Condition 16 (which notice shall be irrevocable) redeem all, and not some only, of the Bonds at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount on the redemption date (the “**Tax Redemption Date**”) if the Issuer satisfies the Trustee immediately prior to the giving of such notice that (i) the Issuer has or will become obliged to pay additional amounts as referred to in Condition 9 as a result of any change in, or amendment to, the laws or regulations of the Cayman Islands or Hong Kong or any political subdivision or any authority thereof or therein having power to tax, or any change in the general application or official

interpretation of such laws or regulations, which change or amendment becomes effective on or after 22 April 2008, and (ii) such obligation cannot be avoided by the Issuer taking reasonable measures available to it, provided that no Tax Redemption Notice shall be given earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts were a payment in respect of the Bonds then due. Prior to the publication of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the Trustee (a) a certificate signed by two directors of the Issuer stating that the obligation referred to in (i) above cannot be avoided by the Issuer taking reasonable measures available to it and (b) an opinion of independent legal or tax advisors of recognised standing to the effect that such change or amendment has occurred (irrespective of whether such amendment or change is then effective) and the Trustee shall be entitled to accept such certificate and opinion as sufficient evidence thereof in which event it shall be conclusive and binding on the Bondholders. Upon the expiry of any such notice, the Issuer will be bound to redeem the Bonds at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount.

- (ii) If the Issuer gives a Tax Redemption Notice pursuant to Condition 8(C)(i), each Bondholder will have the right to elect that all and not some only of his Bond(s) shall not be redeemed and that the provisions of Condition 9 shall not apply in respect of any payment of principal or premium to be made in respect of such Bond(s) which falls due after the relevant Tax Redemption Date whereupon no additional amounts shall be payable in respect thereof pursuant to Condition 9 and payment of all amounts shall be made subject to the deduction or withholding of any tax required to be deducted or withheld. To exercise a right pursuant to this Condition 8(C)(ii), the holder of the relevant Bond must complete, sign and deposit at the specified office of any Paying Agent a duly completed and signed notice of exercise, in the form for the time being current, obtainable from the specified office of any Paying Agent (the “**Tax Option Exercise Notice**”) together with the Certificate evidencing the Bonds on or before the day falling seven days prior to the Tax Redemption Date.

D. Redemption for Delisting or Change of Control

Following the occurrence of a Relevant Event (as defined below), the holder of each Bond will have the right at such holder’s option, to require the Issuer to redeem all and not some only of that holder’s Bonds on the Relevant Event Redemption Date (as defined below) at a redemption price equal to the US Dollar Equivalent of their Early Redemption Amount on such date. To exercise such right, the holder of the relevant Bond must deposit at the specified office of any Paying Agent a duly completed and signed notice of redemption, in the form for the time being current, obtainable from the specified office of any Paying Agent (the “**Relevant Event Redemption Notice**”) together with the Certificate evidencing the Bonds to be redeemed by not later than 60 days following a Relevant Event, or, if later, 60 days following the date upon which notice thereof is given to Bondholders by the Issuer in accordance with Condition 16. The “**Relevant Event Redemption Date**” shall be the 14th day after the expiry of such period of 60 days as referred to above.

A Relevant Event Redemption Notice, once delivered, shall be irrevocable and may not be withdrawn and the Issuer shall redeem the Bonds the subject of Relevant Event Redemption Notices delivered as aforesaid on the Relevant Event Redemption Date. The Issuer shall give notice to Bondholders in accordance with Condition 16 by not later than five days following the first day on which it becomes aware of the occurrence of a Relevant Event, which notice shall specify the procedure for exercise by holders of their rights to require redemption of the Bonds pursuant to this Condition and shall give brief details of the Relevant Event.

The Trustee shall not be required to take any steps to ascertain whether a Relevant Event or any event which could lead to the occurrence of a Relevant Event has occurred and shall not be responsible or liable to Bondholders for any loss arising from any failure by it to do so.

A “**Relevant Event**” occurs:

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

E. Purchases

The Issuer or any of its Subsidiaries may at any time and from time to time purchase Bonds at any price in the open market or otherwise.

F. Cancellation

All Bonds which are redeemed, converted or purchased by the Issuer or any of its Subsidiaries, will forthwith be cancelled. Certificates in respect of all Bonds cancelled will be forwarded to or to the order of the Registrar and such Bonds may not be reissued or resold.

G. Multiple Notices

All notices to Bondholders given by or on behalf of the Issuer pursuant to Condition 8(B) or 8(C) will specify the Conversion Price as at the date of the relevant notice, the Conversion Period, the Closing Price of the Shares as at the latest practicable date prior to the publication of the notice, the applicable Early Redemption Amount and the US Dollar Equivalent thereof, the deemed Conversion Date or the date for redemption, the manner in which mandatory conversion or redemption will be effected and the aggregate RMB principal amount of the Bonds outstanding as at the latest practicable date prior to the publication of the notice. In addition to the details specified above, all notices to Bondholders given by or on behalf of the Issuer pursuant to Condition 8(B)(i) will also specify the Bonds selected for mandatory conversion (if applicable), the then applicable Conversion Price, the number of Shares to be delivered to Bondholders and the Bondholders’ right to exercise their Conversion Right or redemption right under Condition 8(D) during the Mandatory Conversion Period.

If more than one notice of redemption (which shall include any notice given by the Company pursuant to Condition 8(B)(ii) or Condition 8(C) and any Relevant Event Redemption Notice is given by a Bondholder pursuant to Condition 8 (D)), the first of such notices to be given shall prevail.

H. Definitions

For the purposes of these Conditions:

a “**Change of Control**” occurs when:

- (i) any Person or Persons (which for this purpose does not include Fortune Apex Limited) acting together acquires Control of the Issuer if such Person or Persons does not or do not have, and would not be deemed to have, Control of the Issuer on the Issue Date;

- (ii) the Issuer consolidates with or merges into or sells or transfers all or substantially all of the Issuer’s assets to any other Person, unless the consolidation, merger, sale or transfer will not result in the other Person or Persons acquiring Control over the Issuer or the successor entity; or
- (iii) one or more Persons (other than any Person referred to in sub-paragraph (i) above) acquires the legal or beneficial ownership of all or substantially all of the Issuer’s issued share capital.

“**Control**” means the acquisition or control of more than 50% of the voting rights of the issued share capital of the Issuer or the right to appoint and/or remove all or the majority of the members of the Issuer’s board of directors or other governing body, whether obtained directly or indirectly, and whether obtained by ownership of share capital, the possession of voting rights, contract or otherwise;

“**Conversion Ratio**” is determined by dividing the RMB principal amount of each Bond (translated into HK dollars at the fixed exchange rate of HK\$1.00 = RMB0.8968) by the then Conversion Price.

The “**Early Redemption Amount**” of a Bond, for each RMB100,000 principal amount of the Bonds, is determined so that it represents for the Bondholder a gross yield of 3.00% per annum, calculated on a semi-annual basis. The applicable Early Redemption Amount for each RMB100,000 principal amount of Bonds is calculated by the Issuer in accordance with the following formula, rounded (if necessary) to two decimal places with 0.005 being rounded upwards (provided that if the date fixed for redemption is a Semi-Annual Date (as set out below), such Early Redemption Amount shall be as set out in the table below in respect of such Semi-Annual Date):

$$\text{Early Redemption Amount} = \text{Previous Redemption Amount} \times (1 + r/2)^{d/p}$$

Previous Redemption Amount = the Early Redemption Amount for each RMB100,000 principal amount of the Bonds on the Semi-Annual Date immediately preceding the date fixed for redemption as set out below (or if the Bonds are to be redeemed prior to 14 November 2008, RMB100,000):

<u>Semi-Annual Date</u>	<u>Early Redemption Amount</u> (RMB)
14 November 2008	101,500.00
14 May 2009	103,022.50
14 November 2009	104,567.84
14 May 2010	106,136.36
14 November 2010	107,728.40

r = 3.00% expressed as a fraction.

d = number of days from and including the immediately preceding Semi-Annual Date (or if the Bonds are to be redeemed on or before 14 November 2008, from and including the Issue Date) to, but excluding, the date fixed for redemption, calculated on the basis of a 360-day year consisting of 12 months of 30 days each and, in the case of an incomplete month, the number of days elapsed.

p = 180

“**Person**” includes any individual, company, corporation, firm, partnership, joint venture, undertaking, association, organisation, trust, state or agency of a state (in each case whether or not being a separate legal

entity) but does not include (i) the Issuer's board of directors or any other governing board and (ii) the Issuer's wholly-owned direct or indirect Subsidiaries.

"Prevailing Rate" means a rate obtained by the Issuer, for exchanging HK dollars and Renminbi and the **"Prevailing Rate"** applicable to any Trading Day shall be the Renminbi/HK dollar official fixing rate, expressed as the amount of Renminbi per one HK dollar, reported by the People's Bank of China which appears on the Reuters Screen "SAEC" Page opposite the symbol "HKDCNY" page at or about 9:15 am (Beijing time) on the relevant Trading Date; and if such rate is unavailable on a particular Trading Day, the Prevailing Rate in effect for the last preceding Trading Day shall be deemed to be the Prevailing Rate for such Trading Day.

9. Taxation

All payments made by the Issuer under or in respect of the Trust Deed, the Bonds or the Agency Agreement will be made free from any restriction or condition and be made without deduction or withholding for or on account of any present or future taxes, duties, assessments or governmental charges of whatever nature imposed or levied by or on behalf of the Cayman Islands or Hong Kong or any authority thereof or therein having power to tax, unless deduction or withholding of such taxes, duties, assessments or governmental charges is compelled by law. In such event, the Issuer will pay such additional amounts as will result in the receipt by the Bondholders of the net amounts after such deduction or withholding equal to the amounts which would otherwise have been receivable by them had no such deduction or withholding been required except that no such additional amount shall be payable in respect of any Bond:

- (i) to a holder (or to a third party on behalf of a holder) who is subject to such taxes, duties, assessments or governmental charges in respect of such Bond by reason of his having some connection with the Cayman Islands or Hong Kong otherwise than merely by holding the Bond or by the receipt of amounts in respect of the Bond;
- (ii) (in the case of a payment of principal) if the Certificate in respect of such Bond is surrendered more than 30 days after the relevant date except to the extent that the holder would have been entitled to such additional amount on surrendering the relevant Certificate for payment on the last day of such period of 30 days,
- (iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Union Directive 2003/48/EC or any other European Union Directive implementing the conclusions of the ECOFIN Council meeting of 26th-27th November 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive; or
- (iv) presented for payment by or on behalf of a Bondholder who would have been able to avoid such withholding or deduction by presenting the relevant Bond to another Paying Agent in a Member State of the European Union.

For the purposes hereof, **"relevant date"** means whichever is the later of (a) the date on which such payment first becomes due and (b) if the full amount payable has not been received by the Trustee or the Principal Agent on or prior to such due date, the date on which, the full amount having been so received, notice to that effect shall have been given to the Bondholders and cheques despatched or payment made.

References in these Conditions to principal and premium (if any) shall be deemed also to refer to any additional amounts which may be payable under this Condition or any undertaking or covenant given in addition thereto or in substitution therefor pursuant to the Trust Deed.

10. Events of Default

A. *Events of Default*

The Trustee at its sole discretion may (but shall not be obligated to), and if so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or if so directed by an Extraordinary Resolution shall (subject in each case to being indemnified and/or secured by the holders to its satisfaction), give notice to the Issuer that the Bonds are, and they shall accordingly thereby become, immediately due and repayable at the US Dollar Equivalent of their Early Redemption Amount (subject as provided below and without prejudice to the right of Bondholders to exercise the Conversion Right in respect of their Bonds in accordance with Condition 6) if:

- (i) a default is made in the payment of any principal or Early Redemption Amount due in respect of the Bonds;
- (ii) any failure by the Issuer to deliver any Shares or the net proceeds thereof as and when the Shares or the net proceeds thereof are required to be delivered following conversion of Bonds;
- (iii) the Issuer does not perform or comply with one or more of its other obligations in the Bonds or the Trust Deed which default is incapable of remedy or, if in the opinion of the Trustee capable of remedy, is not in the opinion of the Trustee remedied within 30 days after written notice of such default shall have been given to the Issuer by the Trustee;
- (iv) the Issuer or any of its Subsidiaries is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or, in the opinion of the Trustee, a material part of (or of a particular type of) its debts, proposes or makes any agreement for the deferral, rescheduling or other readjustment of all or (or all of a particular type of) its debts (or of any part which it will or might otherwise be unable to pay when due), proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared in respect of or affecting all or, in the opinion of the Trustee, a material part of (or of a particular type of) the debts of the Issuer or any of its Subsidiaries;
- (v) (a) any other present or future indebtedness (whether actual or contingent) of the Issuer or any of its Subsidiaries for or in respect of moneys borrowed or raised becomes, or becomes capable of being declared, due and payable prior to its stated maturity by reason of any actual or potential default, event of default or the like (howsoever described), or (b) any such indebtedness is not paid when due or, as the case may be, within any applicable grace period, or (c) the Issuer or any of its Subsidiaries fails to pay when due any amount payable by it under any present or future guarantee for, or indemnity in respect of, any moneys borrowed or raised, provided that the aggregate amount of the relevant indebtedness, guarantees and indemnities in respect of which one or more of the events mentioned above in this paragraph (v) have occurred equals or exceeds US\$10,000,000 or its equivalent in any other currency on the day on which such indebtedness becomes due and payable or is not paid or any such amount becomes due and payable or is not paid under any such guarantees or indemnity;
- (vi) a distress, attachment, execution, seizure before judgment or other legal process is levied, enforced or sued out on or against all or, in the opinion of the Trustee, any material part of the property, assets or turnover of the Issuer or any of its Subsidiaries and is not discharged or stayed within 30 days of having been so levied, enforced or sued out;

- (vii) an order is made or an effective resolution passed for the winding-up or dissolution, judicial management or administration of the Issuer or any of its Subsidiaries (except for a members' voluntary solvent winding-up), or the Issuer or any of its Subsidiaries ceases or threatens to cease to carry on or dispose of (whether in one transaction or a series of transactions) all or, in the opinion of the Trustee, substantially all of its business or operations except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation (a) on terms approved by an Extraordinary Resolution of the Bondholders, or (b) in the case of a Subsidiary of the Issuer whereby the undertaking and assets of such Subsidiary are transferred to or otherwise vested in the Issuer or another Subsidiary of the Issuer;
- (viii) an encumbrancer takes possession or an administrative or other receiver, manager, administrator or other similar officer is appointed, of the whole or, in the opinion of the Trustee, a material part of the property, assets or turnover of the Issuer or any of its Subsidiaries (as the case may be) and is not discharged within 30 days;
- (ix) any step is taken by any person with a view to the seizure, compulsory acquisition, expropriation or nationalisation of all or, in the opinion of the Trustee, a material part of the assets of the Issuer or any of its Subsidiaries;
- (x) any action, condition or thing (including the obtaining or effecting of any necessary consent, approval, authorisation, exemption, filing, licence, order, recording or registration) at any time required to be taken, fulfilled or done in order (a) to enable the Issuer lawfully to enter into, exercise its rights and perform and comply with its obligations under the Bonds and the Trust Deed, (b) to ensure that those obligations of the Issuer are legally binding and enforceable and (c) to make the Bonds and the Trust Deed admissible in evidence in the courts of Cayman Islands, Hong Kong or England is not taken, fulfilled or done;
- (xi) it is or will become unlawful for the Issuer to perform or comply with any one or more of its obligations under any of the Bonds or the Trust Deed;
- (xii) any event occurs which under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs,

provided that, in the case of any such event other than those described in paragraphs (i), (ii), (iii) (v), (vi), (viii), (x) and (xii), the Trustee shall have certified in writing to the Issuer that such event is in its opinion materially prejudicial to the interests of Bondholders.

The Trustee and the Agents need not do anything to ascertain whether any Event of Default or Potential Event of Default (as defined in the Trust Deed) has occurred or is continuing and will not be responsible to Bondholders or any other person for any loss arising from any failure by it to do so, and, (unless and until the Trustee or the Agent otherwise has notice in writing to the contrary), the Trustee or the Agent may assume that no such event has occurred and that the Issuer is performing all its obligations under the Trust Deed and the Bonds.

B. *Default Cure Amount*

If the Bonds have become due and payable pursuant to Condition 10(A), notwithstanding Condition 6(A) and the receipt of any payment after the acceleration of the Bonds and provided that no Conversion Notice has been delivered pursuant to Condition 6(A)(iv), a Bondholder may exercise its Conversion Right in accordance with this Condition 10(B) by depositing a Conversion Notice with a Conversion Agent during the period from and including the date of a default notice with respect to an event specified in Condition 10(A) (at which time the Issuer will notify the Bondholders of the number of Shares

per Bond to be delivered upon conversion, assuming all the then outstanding Bonds are converted) to and including the 30th business day after such payment.

If any converting Bondholder deposits a Conversion Notice pursuant to this Condition 10(B) on the business day prior to, or during, a Closed Period, the Bondholder's Conversion Right shall continue until the business day following the last day of the Closed Period, which shall be deemed the Conversion Date, for the purposes of such Bondholder's exercise of its Conversion Right pursuant to this Condition 10(B).

If the Conversion Right attached to any Bond is exercised pursuant to this Condition 10(B), or if an event of default has occurred pursuant to Conditions 10(A)(ii), the Issuer shall in lieu of delivery of the relevant Shares pay to such Bondholder the US Dollar Equivalent of an amount (the "**Default Cure Amount**"), equal to the product of (x) (i) the number of Shares that are required to be delivered by the Issuer to satisfy the Conversion Right in relation to such converting Bondholder minus (ii) the number of Shares that are actually delivered by the Issuer pursuant to such Bondholders' Conversion Notice and (y) the Share Price (as defined below) on the Conversion Date; provided that if such Bondholder has received any payment under the Bonds pursuant to this Condition 10(B), the amount of such payment shall be deducted from the Default Cure Amount. Payment of the Default Cure Amount shall be paid to the converting Bondholder on the eighth Stock Exchange Business Day following the Conversion Date.

The "**Share Price**" means the Closing Price on the Conversion Date or, if no reported sales take place on such date, the average of the reported closing bid and offered prices, in either case as reported by the Hong Kong Stock Exchange or the Alternative Stock Exchange for such day as furnished by a reputable and independent broker-dealer selected from time to time by the Trustee at the expense of the Issuer for such purpose.

11. Prescription

Claims in respect of amounts due in respect of the Bonds will become prescribed unless made within 10 years (in the case of principal) and five years (in the case of default interest or premium (if any)) from the relevant date (as defined in Condition 9) in respect thereof. Neither the Trustee nor the Agents will be responsible or liable for any amounts so prescribed.

12. Enforcement

At any time after the Bonds have become due and repayable, the Trustee may, at its sole discretion and without further notice, take such proceedings against the Issuer as it may think fit to enforce repayment of the Bonds and to enforce the provisions of the Trust Deed, but it will not be bound to take any such proceedings unless (a) it shall have been so requested in writing by the holders of not less than 25% in principal amount of the Bonds then outstanding or shall have been so directed by an Extraordinary Resolution of the Bondholders and (b) it shall have been indemnified and/or secured to its satisfaction and shall incur no liability for taking or refraining from taking such action. No Bondholder will be entitled to proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable period and such failure shall be continuing.

13. Meetings of Bondholders, Modification and Waiver

A. Meetings

The Trust Deed contains provisions for convening meetings of Bondholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution of a modification of the Bonds or the provisions of the Trust Deed. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing over 50% in principal amount of the Bonds

for the time being outstanding or, at any adjourned such meeting, two or more persons being or representing Bondholders whatever the principal amount of the Bonds so held or represented unless the business of such meeting includes consideration of an Extraordinary Resolution to, inter alia, (i) modify the due date for any payment in respect of the Bonds, (ii) reduce or cancel the amount of principal, premium or default interest (including any Early Redemption Amount), Equivalent Amount or US Dollar Equivalent payable in respect of the Bonds or changing the method of calculation of the Early Redemption Amount or the US Dollar Equivalent, (iii) change the currency of payment of the Bonds, (iv) modify (except by a unilateral and unconditional reduction in the Conversion Price) or cancel the Conversion Rights, or (v) modify the provisions concerning the quorum required at any meeting of the Bondholders or the majority required to pass an Extraordinary Resolution, in which case the necessary quorum for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 66%, or at any adjourned such meeting not less than 33% in principal amount of the Bonds for the time being outstanding. An Extraordinary Resolution passed at any meeting of Bondholders will be binding on all Bondholders, whether or not they are present at the meeting. The Trust Deed provides that a written resolution signed by or on behalf of the holders of not less than 90% of the aggregate principal amount of Bonds outstanding shall be as valid and effective as a duly passed Extraordinary Resolution.

B. *Modification and Waiver*

The Trustee may agree, without the consent of the Bondholders, to (i) any modification (except those mentioned in Condition 13(A) above) to, or the waiver or authorisation of any breach or proposed breach of, the Bonds, the Agency Agreement or the Trust Deed which is not, in the opinion of the Trustee, materially prejudicial to the interests of the Bondholders or (ii) any modification to the Bonds or the Trust Deed which, in the Trustee's opinion, is of a formal, minor or technical nature or to correct a manifest error or to comply with mandatory provisions of law. Any such modification, waiver or authorisation will be binding on the Bondholders and, unless the Trustee agrees otherwise, any such modifications will be notified by the Issuer to the Bondholders as soon as practicable thereafter.

C. *Interests of Bondholders*

In connection with the exercise of its functions (including but not limited to those in relation to any proposed modification, authorisation or waiver) the Trustee shall have regard to the interests of the Bondholders as a class and shall not have regard to the consequences of such exercise for individual Bondholders and the Trustee shall not be entitled to require, nor shall any Bondholder be entitled to claim, from the Issuer or the Trustee, any indemnification or payment in respect of any tax consequences of any such exercise upon individual Bondholders except to the extent provided for in Condition 9 and/or any undertakings given in addition thereto or in substitution therefor pursuant to the Trust Deed.

In the event of the passing of an Extraordinary Resolution in accordance with Condition 13(A) or a modification, in accordance with Condition 13(B), the Issuer will procure that the Bondholders be notified in accordance with Condition 16.

14. Replacement of Certificates

If any Certificate is mutilated, defaced, destroyed, stolen or lost, it may be replaced at the specified office of the Registrar or any Agent upon payment by the claimant of such costs as may be incurred in connection therewith and on such terms as to evidence and indemnity as the Issuer and such Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

15. Further Issues

The Issuer may from time to time, without the consent of the Bondholders, create and issue further Bonds having the same terms and conditions as the Bonds in all respects and so that such further issue shall be consolidated and form a single series with the Bonds. Such further Bonds may, with the consent of the Trustee, be constituted by a deed supplemental to the Trust Deed.

16. Notices

All notices to Bondholders shall be validly given if mailed to them at their respective addresses in the register of Bondholders maintained by the Registrar or at the Issuer's expense published in a leading newspaper having general circulation in Asia (which is expected to be the Asian Wall Street Journal) and so long as the Bonds are listed on SGX-ST and if the rules of SGX-ST so require, published in a leading newspaper having general circulation in Singapore (which is expected to be The Business Times). Any such notice shall be deemed to have been given on the later of the date of such publications (if applicable) or the seventh day after being so mailed, as the case may be.

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or the Alternative Clearing System (as defined in the Global Certificate), notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

17. Currency Indemnity

A. Currency of Account and Payment

US dollars (the “**Contractual Currency**”) is the sole currency of account and payment for all sums payable by the Issuer under or in connection with the Bonds and the Trust Deed, including damages.

B. Extent of Discharge

An amount received or recovered in a currency other than the Contractual Currency (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Issuer or otherwise) by the Trustee or any Bondholder in respect of any sum expressed to be due to it from the Issuer will only discharge the Issuer to the extent of the Contractual Currency amount which the recipient is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date on which it is practicable to do so).

C. Indemnity

If that Contractual Currency amount is less than the Contractual Currency amount expressed to be due to the recipient under the Bonds or the Trust Deed, the Issuer will indemnify the recipient against any loss sustained by it as a result. In any event, the Issuer will indemnify the recipient against the cost of making any such purchase.

D. Indemnity Separate

The indemnity in this Condition 17 constitutes a separate and independent obligation from the other obligations under the Bonds and the Trust Deed, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted by the Trustee and/or any Bondholder and will continue in

full force and effect despite any judgment, order, claim or proof for a liquidated amount in respect of any sum due under the Bonds and/or the Trust Deed or any other judgment or order.

18. Agents

The names of the initial Agents and the Registrar and their specified offices are set out below. The Issuer reserves the right, subject to the prior written approval of the Trustee, at any time to vary or terminate the appointment of any Agent or the Registrar and to appoint additional or other Agents or a replacement Registrar. The Issuer will at all times maintain (a) a Principal Agent, (b) a Paying Agent with a specified office in a European Union member state that will not be obliged to withhold or deduct tax pursuant to European Directive 2003/48/EC or any other European Directive on the taxation of savings income or any law implementing or complying with, or introduced in order to conform, to such Directive, (c) an Agent having a specified office in Singapore where the Bonds may be presented or surrendered for payment or redemption, so long as the Bonds are listed on the SGX-ST and the rules of that exchange so require (and such agent in Singapore shall be a Paying, Transfer and Conversion Agent and shall be referred to in these terms and conditions as the “**Singapore Agent**”) and (d) a Registrar which will maintain the register of Bondholders outside the United Kingdom. Notice of any such termination or appointment, of any changes in the specified offices of any Agent or the Registrar and of any change in the identity of the Registrar or the Principal Agent will be given promptly by the Issuer to the Bondholders and in any event will be given not less than 45 days’ prior to the date of such termination or appointment.

So long as the Bonds are listed on the SGX-ST and the rules of that exchange so require, in the event that the Global Certificate is exchanged for definitive Certificates, the Issuer shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption. In addition, in the event that the Global Certificate is exchanged for definitive Certificates, announcement of such exchange shall be made through the SGX-ST and such announcement will include all material information with respect to the delivery of the definitive Certificates, including details of the Singapore Agent.

19. Indemnification of the Trustee

The Trust Deed contains provisions for the indemnification of the Trustee and for its relief from responsibility, including provisions relieving it from taking proceedings to enforce repayment unless indemnified to its satisfaction. The Trustee is entitled to enter into business transactions with the Issuer and any entity related to the Issuer without accounting for any profit.

20. Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Bonds or any provision of the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

21. Governing Law and Submission to Jurisdiction

The Bonds, the Trust Deed and the Agency Agreement are governed by, and shall be construed in accordance with, the laws of England. In relation to any legal action or proceedings arising out of or in connection with the Trust Deed or the Bonds, the Issuer has in the Trust Deed irrevocably submitted to the jurisdiction of the courts of England and in relation thereto, has appointed Law Debenture Corporate Services Limited currently at Fifth Floor, 100 Wood Street, London EC2V 7EX as its agent for service of process in England.

THE GLOBAL CERTIFICATE

The Global Certificate contains provisions which apply to the Bonds in respect of which the Global Certificate is issued, some of which modify the effect of the terms and conditions of the Bonds (the “Conditions”) set out in this Offering Circular. Terms defined in the Conditions have the same meaning in the paragraphs below. The following is a summary of those provisions:

Meetings

The registered holder (as defined in the Conditions) (and any proxy or representative appointed by it) of the Global Certificate will be treated as being two persons for the purposes of any quorum requirements of a meeting of Bondholders and, at any such meeting, as having one vote in respect of each RMB100,000 in principal amount of Bonds for which the Global Certificate is issued. The Trustee may allow a person with an interest in Bonds in respect of which the Global Certificate has been issued to attend and speak at a meeting of Bondholders on appropriate proof of his identity and interest.

Cancellation

Cancellation of any Bond by the Company following its redemption, conversion or purchase by the Company will be effected by a reduction in the principal amount of the Bonds in the register of Bondholders.

Trustee’s Powers

In considering the interests of Bondholders while the Global Certificate is registered in the name of a nominee for a clearing system, the Trustee may, to the extent it considers it appropriate to do so in the circumstances but without being obliged to do so, (a) have regard to any information as may have been made available to it by or on behalf of the relevant clearing system or its operator as to the identity of its accountholders (either individually or by way of category) with entitlements in respect of the Bonds and (b) consider such interests on the basis that such accountholders were the holders of the Bonds in respect of which the Global Certificate is issued.

Conversion

Subject to the requirements of Euroclear and Clearstream, Luxembourg or any other clearing system (an “**Alternative Clearing System**”) as shall have been designated by the Company and approved by the Trustee on behalf of which the Bonds evidenced by the Global Certificate may be held, the Conversion Right attaching to a Bond in respect of which the Global Certificate is issued may be exercised by the presentation thereof to or to the order of the Principal Agent of one or more Conversion Notices duly completed by or on behalf of a holder of a book-entry interest in such Bonds. Deposit of the Global Certificate with the Principal Agent together with the relevant Conversion Notice(s) shall not be required. The exercise of the Conversion Right shall be notified by the Principal Agent to the Registrar and the holder of the Global Certificate.

Payment

Payments of principal, interest (if any), premium and any other amount in respect of Bonds represented by the Global Certificate will be made without presentation or, if no further payment falls to be made in respect of the Bonds, against presentation and surrender of the Global Certificate to or to the order of the Principal Agent or such other Paying Agent as shall have been notified to the Bondholders for such purpose.

Notices

So long as the Bonds are represented by the Global Certificate and the Global Certificate is held on behalf of Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, notices to Bondholders may be given by delivery of the relevant notice to Euroclear or Clearstream, Luxembourg or the Alternative Clearing System, for communication by it to entitled accountholders in substitution for notification as required by the Conditions.

Bondholder's Redemption

The Bondholder's redemption option in Condition 8(D) may be exercised by the holder of the Global Certificate giving notice to the Principal Agent of the principal amount of Bonds in respect of which the option is exercised and presenting the Global Certificate for endorsement or exercise (if required) within the time limits specified in the Conditions.

Mandatory Conversion and Redemption at the Option of the Company

The options of the Company provided for in Conditions 8(B) and 8(C) shall be exercised by the Company giving notice to the Bondholders within the time limits set out in and containing the information required by such Conditions and Condition 8(G).

No drawing of Bonds will be required under Condition 8(B)(i) in the event that the Company exercises its mandatory conversion option in respect of less than the aggregate principal amount of the Bonds in respect of which the Global Certificate is issued.

Bondholder's Tax Option

The option of the Bondholders not to have the Bonds redeemed as provided in Condition 8(C)(ii) shall be exercised by the presentation to any Paying Agent, or to the order of such Paying Agent, of a duly completed Bondholders' Tax Option Exercise Notice within the time limits set out in and containing the information required by Condition 8(C).

Registration of Title

Certificates in definitive form for individual holdings of Bonds will not be issued in exchange for interests in Bonds in respect of which the Global Certificate is issued, except if either Euroclear or Clearstream, Luxembourg (or any Alternative Clearing System on behalf of which the Bonds evidenced by the Global Certificate may be held) is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so.

Transfers

Transfers of interests in the Bonds will be effected through the records of Euroclear and Clearstream, Luxembourg (or any Alternative Clearing System) and their respective participants in accordance with the rules and procedures of Euroclear and Clearstream, Luxembourg (or any Alternative Clearing System) and their respective direct and indirect participants.

Enforcement

For the purposes of enforcement of the provisions of the Trust Deed against the Trustee, only the persons named in a certificate of the clearing system as account holders in the clearing system may be recognised as the beneficiaries of the trust set out in the Trust Deed, to the extent of the principal amount of their interest in the Bonds set out in the certificate of the clearing system, as if they were themselves the holders of Bonds in such principal amounts.

USE OF PROCEEDS

The net proceeds from the issue of the Bonds after deducting expenses (including but not limited to underwriting commission to be charged by the Lead Manager) is estimated to be approximately US\$280.5 million, approximately US\$142.8 million of which will be used to enter into the Equity Swap to facilitate hedging by investors in the Bonds and to provide the Company with a hedge against an increase in its Share price.

The remaining proceeds will be used by the Group to fund capital expenditure up to 2010 to meet growing demand for gearbox and transmission equipment in various industries, (including wind power generation, marine vessels and rail transport) and general working capital (including payments for imported equipment and components).

CAPITALISATION AND INDEBTEDNESS

Capitalisation and Indebtedness of the Group

As at the date of this Offering Circular, the Company has an authorised share capital of US\$30,000,000 consisting of 3,000,000,000 ordinary shares of US\$0.01 each and an issued and fully paid-up share capital of approximately US\$12,450,000 consisting of 1,245,000,000 ordinary shares of US\$0.01 each.

The following table sets forth the audited consolidated capitalisation and indebtedness of the Group as at 31 December 2007 and as adjusted to give effect to the issue of the Bonds:

	December 31, 2007			
	Actual		As Adjusted	
	RMB	US\$(¹)	RMB	US\$(¹)
	(in millions)			
Total borrowings—current portion				
Short-term bank borrowings	420.8	57.7	420.8	57.7
	420.8	57.7	420.8	57.7
Total borrowings—non-current portion				
Long-term bank borrowings	73.0	10.0	73.0	10.0
The Bonds to be issued(²)	—	—	1,996.3	273.7
	73.0	10.0	2,069.3	283.7
Shareholders' Funds				
Share Capital	94.6	13.0	94.6	13.0
Reserve	3,009.9	412.6	3,009.9	412.6
Minority interests	3.3	0.5	3.3	0.5
	3,107.8	426.1	3,107.8	426.1
Total Capitalisation(³)	3,180.8	436.1	5,177.1	709.8

Notes: (1) Calculated using an exchange rate of RMB7.2946 to US\$1.00 as at 31 December 2007.

(2) If all the Bonds were converted at the initial conversion price of HK\$17.78 per Share, up to an additional 125,198,306 Shares would be issuable upon conversion.

(3) Total capitalisation represents the sum of total borrowings—non-current portion and shareholders' funds.

Other than as disclosed above, there has been no material change in the capitalisation of the Group since 31 December 2007.

BUSINESS

Overview

The Group is one of the leading mechanical transmission equipment producers in the PRC with a history dating back to 1969. The Group is engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment used in a wide range of industrial applications including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining.

The Group was founded in 1969 and was formed as a result of the merger of the Second Machinery Maintenance Station of Nanjing and Nanjing Mechanic School. Nanjing Machinery Maintenance Factory changed its name to Nanjing High Speed Gear Factory in 1975 and in 2001 transferred all of its mechanical transmission equipment manufacturing related assets into a newly formed joint stock company, NGC in which it held a 73.68% interest. In March 2005, the Company was incorporated in the Cayman Islands to become the holding company of the Group. The Company acquired 91% interest in NGC in 2005 and the remaining 9% interest in NGC in 2006, turning it into a wholly owned subsidiary.

The Group sells its products in the PRC and also exports its products to overseas markets including the U.S., India, Japan and Europe. The Group's domestic sales and export sales accounted for 83.5% and 16.5%, respectively, of the Group's total audited consolidated sales revenue for the year ended 31 December 2007.

For the years ended 31 December 2005, 2006 and 2007, the Group's audited consolidated revenue was RMB947 million, RMB1,184 million and RMB1,905 million, respectively, and its audited consolidated profit was RMB99 million, RMB90 million and RMB306 million, respectively. As at 31 December 2005, 2006 and 2007, the Group's audited consolidated total assets were RMB1,442 million, RMB2,223 million and RMB4,786 million, respectively.

The Company has been listed on the Hong Kong Stock Exchange since 4 July 2007. The Company's registered office is located at 2/F, Cayside Harbour Drive, P.O. Box 30592 S.M.B., Grand Cayman, Cayman Islands and its principal office is located at 36/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong. As at 7 May 2008, the market capitalisation of the Company was approximately HK\$17 billion based on the closing price of HK\$13.98 per share as quoted on the Hong Kong Stock Exchange.

Strategy

The Company's goal is for the Group to become one of the world's leading mechanical transmission equipment manufacturers specialising in the research, design, development, manufacture and distribution of high quality mechanical transmission equipment and related products. To this end, the Company plans to carry out or is in the process of carrying out the following strategies:

Expand the Group's product range to cover a wider variety of high quality and specialised products

The Company aims to continue to leverage on its technological and design capabilities to design and manufacture technologically advanced and high quality mechanical transmission equipment. The Company plans to expand the Group's product range by designing and manufacturing more powerful Wind Generation Gear Transmission Equipment (as defined below), as the Company believes the wind power industry has strong growth potential both domestically and internationally and intends to capitalise on this growth. For example, pursuant to NGC's joint development agreement with GE in August 2006, NGC and GE are cooperating in the development of Wind Generation Gear Transmission Equipment for GE's 1.5 MW wind turbine generators, which will be manufactured by NGC (such 1.5 MW Wind Generation Gear Transmission Equipment having passed trial testing in February 2008), and the Company has set up a research and development team to develop

Wind Generation Gear Transmission Equipment for GE's 2 MW wind turbine generators, which is expected to be ready for production during the first quarter of 2009. The Company also plans to produce a greater variety of Marine Gear Transmission Equipment (as defined in later sections), mechanical transmission equipment used for light rails and high-speed rails ("**Rail Gear Transmission Equipment**") and mechanical transmission equipment for controllable pitch propellers. The Group established the joint venture company ZF Nanjing Marine Propulsion Co., Ltd. ("**ZF Nanjing**") with ZF (China) Investment Co., Ltd. ("**ZF China**") in July 2006 for the assembly and sale of Marine Gear Transmission Equipment, and in April 2007 entered into a development support service agreement with Alstom Group, one of the world's leading railway infrastructure technical service providers, to design and develop Rail Gear Transmission Equipment. The Company also plans to construct a production facility for Rail Gear Transmission Equipment which is expected to commence operations in 2008. Through its collaborations with leading international industrial product manufacturers, in conjunction with its research and development capability, the Company believes that it will be able to expand the Group's product portfolio. By expanding the Group's product range, the Company believes that it can solidify the Group's market leadership position in the PRC and enhance the Group's market share internationally.

Continue organic growth and growth through acquisitions

The Company intends to make a variety of investments in order to expand the Group's production capacity. In particular, the Company intends to expand facilities and purchase equipment related to the production of Wind Generation Gear Transmission Equipment, Marine Gear Transmission Equipment and Rail Gear Transmission Equipment. By expanding the Group's production capacity, the Company believes that it will be able to satisfy increased demand for the Group's products and increase the Group's revenue.

In addition, the Company will, from time to time, prudently and selectively review opportunities for strategic acquisitions that will complement the Group's product portfolio and production capabilities, supplement its current technologies and know-how and assist it in expanding its market share. No timeframe, however, has been set for making any such acquisitions.

Continue to invest in research, design and development capabilities and strengthen the Group's technological capabilities

The Company believes that one of the key elements for the Group's future success is the continued investment in research, design and development capability to improve the quality and technological features of the Group's products and to expand the Group's product portfolio. As the Group's customers continue to upgrade their products, the Company will need to continually improve the Group's products both in relation to design and technological features to meet its customers' evolving requirements. In addition, the Company has invested in the development of new products including Wind Generation Gear Transmission Equipment and Marine Gear Transmission Equipment. For the three years ended 31 December 2005, 2006 and 2007, the Company spent RMB25.2 million, RMB30.9 million and RMB58.4 million, respectively, on research and development activities, part of which has been capitalised, and the Company plans to continue to invest in research, design and development with a view of enhancing its operational efficiency and product quality.

As part of its plan to keep up with the latest technological developments, the Company will continue to improve the technological capabilities of the Group's research, design and development team. The Company plans to increase the number of masters degree in engineering programmes and MBA programmes, which are organised through its collaboration with various universities in the PRC, and which the Company offers to the Group's employees. In addition, the Company seeks to recruit mechanical transmission equipment industry experts from countries such as Japan and Germany.

Broaden and strengthen relationships with the Group's strategic business partners and develop new strategic business partnerships

The Company intends to continue to leverage on existing relationships with the Group's international business partners and establish partnerships with new international business partners to broaden the Group's product mix. In particular, the Company intends to expand the series and range of products officially recognised by the Group's business partners in order that the Group may become "qualified suppliers" to such business partners for a wider range of products. Over time, the Company intends to move from supplying Wind Generation Gear Transmission Equipment for GE's 1.5 MW wind turbines to supplying equipment to GE for wind turbines that are capable of generating up to 5 MW. Currently, the Group is in the process of developing gears for 2 MW wind turbines for GE. The Company also intends to provide more custom-designed or jointly developed products to its international customers. For example, aside from the assembly and sale of Marine Gear Transmission Equipment by ZF Nanjing, the Company's joint venture with ZF China, it also intends to invest in the development and production of controllable propellers and hydraulic pressure controlling systems for export sales to ZF Friedrichshafen AG ("ZF"), a corporation that provides components and systems to the automotive, commercial vehicle, off-highway/construction, marine, rail and aviation industries in the international market. Moreover, in April 2007, the Group entered into a development support service agreement with Alstom Group for Rail Gear Transmission Equipment.

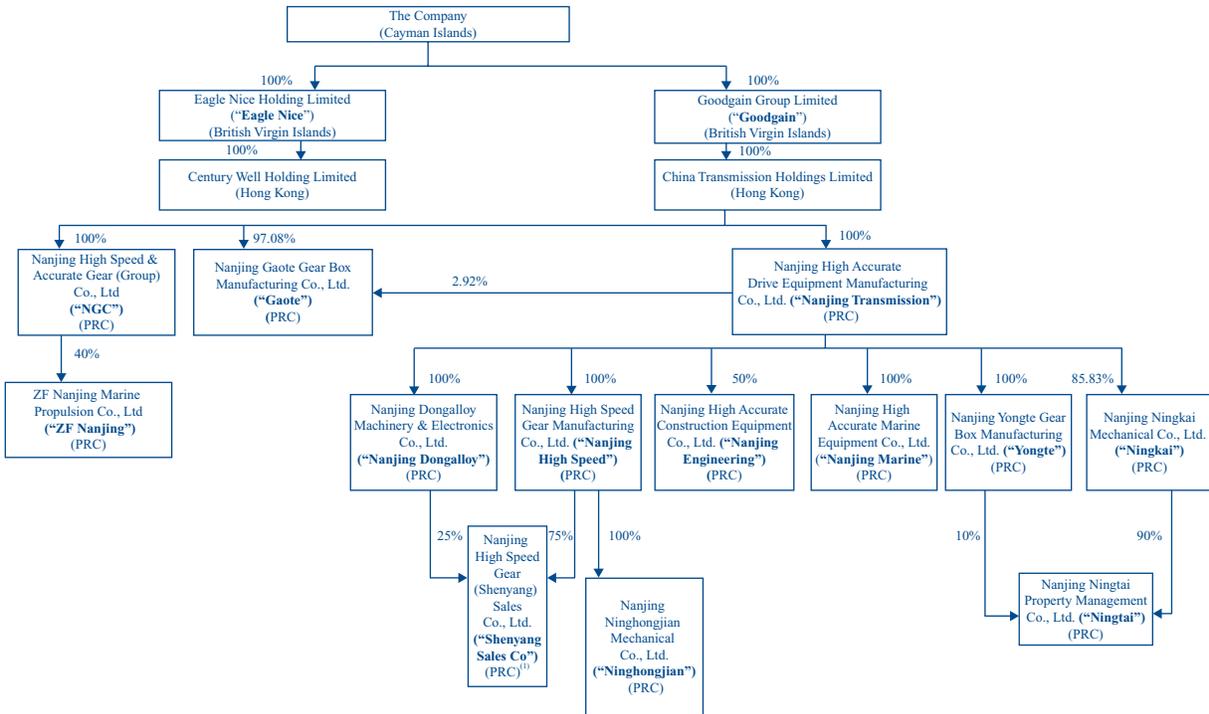
The Company intends to build upon its experience and market knowledge derived from its strategic cooperation and development relationships with leading manufacturers such as GE, ZF, Alstom Group and Goldwind. The Company believes that its relationships with these customers will increase the Group's profile and credibility both in the PRC and internationally, which will enable the Group to establish and enhance its credibility with other potential leading domestic and international industrial product manufacturers and explore additional opportunities for strategic business partnerships.

Invest in production facilities to manufacture raw materials for critical components for the Group's products and secure supply for its operations

The Group currently relies on third party suppliers for the raw materials, such as forged steel and cast iron products, steel plates and bearings, required in the production of its products. With the expansion of the Group's production capacity, the Company also intends to invest in upstream facilities (through joint venture or otherwise) to manufacture forged steel and cast iron products to be used as feedstock for its operations. As a result of this investment, the Company believes that it will be able to reduce the Group's exposure to price volatility, quantity shortages and quality fluctuations of key raw materials and input components and improve the Group's profitability and product quality. In addition, the Group has also signed a fixed volume and price supply contract with a major supplier for orders placed in 2008 for bearings. Notwithstanding the above, the Company will continue to attempt to pass through raw material cost for delivery in increases to its customers, an approach which the Company has been relatively successful in the past.

Group Structure

The following chart sets out the structure of the Group as at 7 May 2008:



Note:

(1) Shenyang Sales Co does not currently have any business operations and is in the process of deregistration. The Company expects the process of deregistration may take approximately two months after the date of this Offering Circular before deregistration is completed.

Products

The Group principally manufactures and sells mechanical transmission equipment, commonly known as gearboxes. Mechanical transmission equipment consists of a system of gears and/or the hydraulic system that transmits power from a prime mover, such as an engine or electric motor, to some form of useful output device, normally rotary in form. The Group's mechanical transmission equipment is applied in a wide range of industries including wind power generation, marine vessels, rail transport, aerospace, metallurgy, petrochemicals, construction and mining.

The Group's products can be categorised in the following seven main product categories:

Wind generation gear transmission equipment ("Wind Generation Gear Transmission Equipment")

Wind Generation Gear Transmission Equipment is mainly used for traditional double-fed wind turbine generators. The Group currently produces gearboxes for wind turbines from 750 KW to 2 MW as well as pitch and yaw drivers. Gearboxes for wind turbines of 2.5 MW and over are currently under development and the Company intends eventually to supply gearboxes for wind turbines up to 5 MW.

Marine gear transmission equipment (“Marine Gear Transmission Equipment”)

Marine Gear Transmission Equipment is mainly used for propeller transmission in a variety of marine vessels, including yachts, work boats, fishing boats and other marine applications. The Group produces large size marine gearboxes, including gearboxes for hydraulic controllable pitch propellers.

High speed gear transmission equipment (“High Speed Gear Transmission Equipment”)

High Speed Gear Transmission Equipment comprises special purpose gearboxes mainly used in the power generation, metallurgy, petrochemical, aerospace and scientific research and development industries. The Group produces the “HS” series high speed gearbox, “MHS” series medium and high speed gearbox and new generation “NGGS” series high speed gearbox.

Gear transmission equipment for construction material (“Construction Gear Transmission Equipment”)

Construction Gear Transmission Equipment is mainly used in crushing machinery for cement production and crushing machinery for the coal industry. The Group construction products include vertical mill gearboxes, central driving mill reducers, side driving mill reducers, planetary reducers for roller presses, mixers and powder concentrators and gear reducers.

General purpose gear transmission equipment (“General Purpose Gear Transmission Equipment”)

General Purpose Gear Transmission Equipment is mainly used in the metallurgy, mining, petrochemical, power generation and textile industries. General purpose gearboxes are also used for conveyor belts and lifting devices. The Group’s general purpose products include hard flank gear reducers, hard flank gearboxes, point line meshing gearboxes and planetary gear reducers.

Gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills (“Rolling Gear Transmission Equipment”)

Rolling Gear Transmission Equipment is mainly used in plate-rolling mills, bar-rolling mills and high-speed fine wire-rolling mills. The Group’s products include plate rolling mill main gearboxes, bar rolling mill main gearboxes, flying shears and high speed wire rolling mill gearboxes.

Others

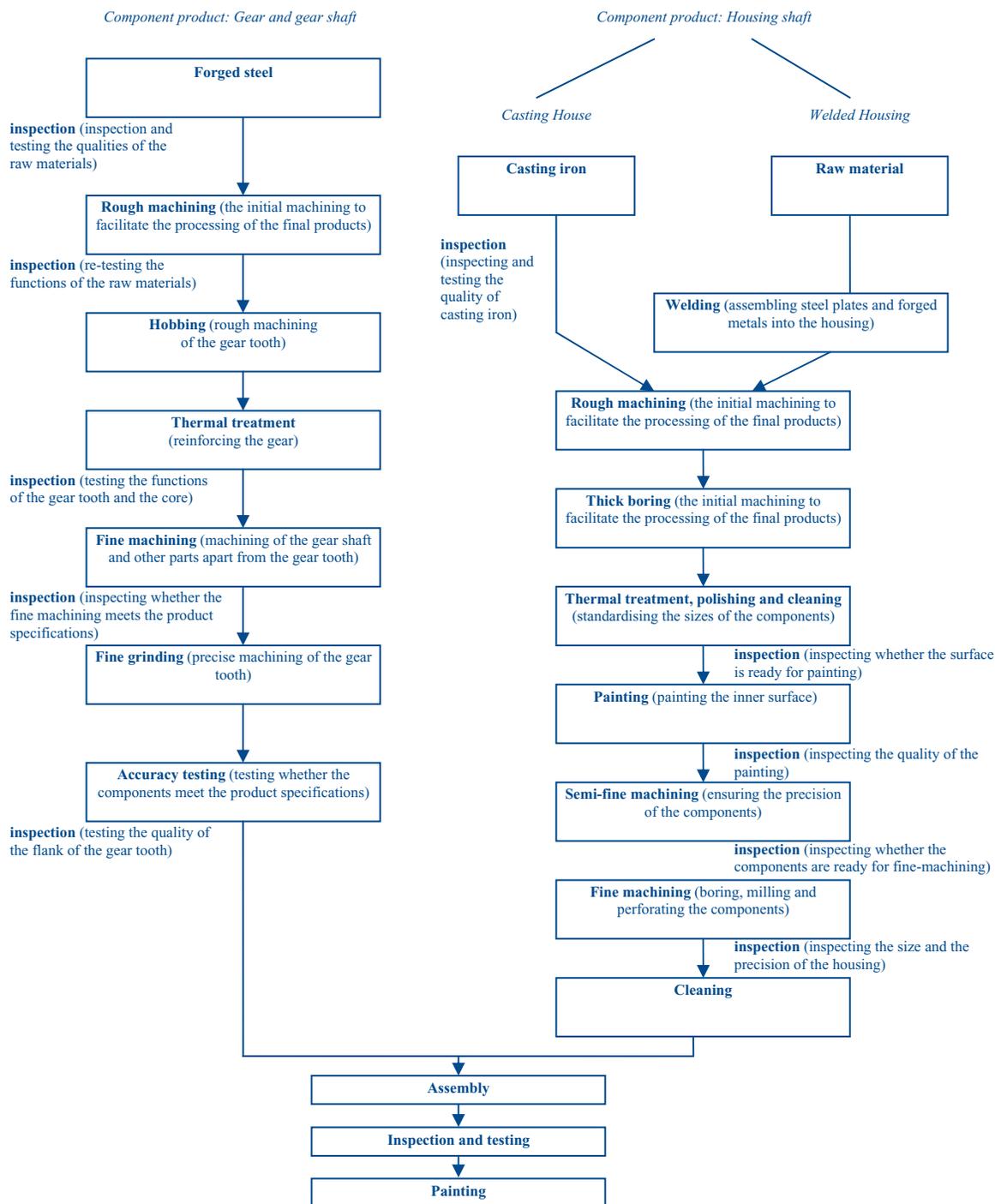
Other products include mechanical transmission equipment for rubber production, mixers, coupling machines, customised mechanical transmission equipment and related spare parts, engineering gears and locomotive gears.

Set out below is a breakdown of the Group's products by sales volume and sales revenue on a consolidated basis for the three years ended 31 December 2005, 2006 and 2007:

	For the year ended 31 December					
	2005 (Audited)		2006 (Audited)		2007 (Audited)	
	Sales volume (tons)	Revenue (RMB in thousands)	Sales volume (tons)	Revenue (RMB in thousands)	Sales volume (tons)	Revenue (RMB in thousands)
Wind Generation Gear Transmission						
Equipment	388.3	26,525.6	4,742.4	317,743.3	17,250.0	717,369.8
Marine Gear Transmission Equipment	13.0	717.9	58.0	3,167.9	1,178.7	135,646.1
High Speed Gear Transmission						
Equipment	525.1	27,518.3	345.7	17,713.9	1,360.3	28,846.1
Construction Gear Transmission						
Equipment	10,691.7	307,767.5	6,788.0	195,434.4	10,728.1	362,234.6
General Purpose Gear Transmission						
Equipment	2,294.1	90,198.9	3,575.0	139,184.3	6,622.4	143,994.8
Rolling Gear Transmission Equipment	7,574.6	301,021.7	7,137.7	289,162.5	7,325.1	293,498.5
Others						
Mechanical transmission equipment for rubber production	90.0	3,149.9	218	7,415.6	74.0	2,266.7
Mechanical transmission equipment for mixers	360.0	10,248.7	609	16,826.9	327.0	12,267.4
Mechanical transmission equipment for coupling machines	43.0	1,712.3	27	1,094.0	—	—
Customised mechanical transmission equipment and related spare parts	2,711.0	105,436.7	3,584	146,525.6	7.0	487.4
Spare parts	1,646.0	70,334.0	1,229	49,866.0	20,498.0	208,204.7
Engineering gears	11.0	496.6	4	172.7	—	—
Locomotive gears	41.0	1,558.3	—	—	—	—
Total	<u>26,388.8</u>	<u>946,686.4</u>	<u>28,317.8</u>	<u>1,184,307.1</u>	<u>65,370.6</u>	<u>1,904,816.1</u>

Production Process

The production processes of the Group's various series of products are essentially the same. Generally, mechanical transmission equipment is produced by assembling various components including gears, gear shafts and housing. The Group manufactures gears, gear shafts and housing from main raw materials such as forged steel, cast iron, foundry steel, bearings and steel plates. Set out below is a simplified flowchart of the production process for typical mechanical transmission equipment:



Facilities

As of 7 May 2008, the Group's properties (including those used for production facilities, office buildings and other administrative amenities) have a total site area of approximately 444,241 sq.m. and a total gross floor area of approximately 221,971 sq.m. Currently the Group has seven principal production facilities in operation. Further details of the Group's principal production facilities are set out below:

Manufacturing entities	Location	Gross floor area	Date of commencement of operations	Products
NGC	No. 3 Youjia'ao, Xiaohang, Yuhuatai District, Nanjing, Jiangsu Province, the PRC	42,538 sq.m.	August 2001	High Speed Gear Transmission Equipment, Construction Gear Transmission Equipment, General Purpose Gear Transmission Equipment, Rolling Gear Transmission Equipment, Marine Gear Transmission Equipment
	Tianyin Avenue, Jiangning Scientific Park, Jiangning District, Nanjing, Jiangsu Province, the PRC	19,548 sq.m.	August 2001	High Speed Gear Transmission Equipment, Construction Gear Transmission Equipment, General Purpose Gear Transmission Equipment, Rolling Gear Transmission, Marine Gear Transmission Equipment
Nanjing High Speed Gear Manufacturing Co., Ltd. (" Nanjing High Speed ")	Jiangning Scientific Park, Jiangning District, Nanjing, Jiangsu Province, the PRC	33,833 sq.m.	July 2003	Wind Generation Gear Transmission Equipment
Nanjing Ningkai Mechanical Co., Ltd. (" Ningkai ")	Youfang Village, Yuhuatai District, Nanjing, Jiangsu Province, the PRC	12,504 sq.m.	November 2002	Rough processing of components for various mechanical transmission equipment
Nanjing Dongalloy Machinery & Electronics Co., Ltd. (" Nanjing Dongalloy ")	No. 10 Gaokesan Road, Nanjing New & High Technology Industrial Development Zone, Pukou District, Nanjing, Jiangsu Province, the PRC	2,124 sq.m.	September 1994	Components for various mechanical transmission equipment
Nanjing High Speed	Mechanical & Electronic Industrial Park, Jiangning District, Nanjing, Jiangsu Province, the PRC	31,496 sq.m.	June 2007	Wind Generation Gear Transmission Equipment and related accessories
Gaote	Mechanical & Electronic Industrial Park, Jiangning District, Nanjing, Jiangsu Province, the PRC	40,103 sq.m.	March 2007	General Purpose Gear Transmission Equipment and related accessories

Major factories and workshops

Land without valid title certificates

As at 7 May 2008, the Group did not possess valid long term land use right certificates for eight parcels of land with a total site area of approximately 149,925 sq.m. As at 7 May 2008, out of the eight parcels of land without valid title certificates, six parcels of land with a total site area of approximately 131,612 sq.m. were being used by the Group for production. The Group is in the process of applying for or will apply for valid title certificates by the end of 2009. There can be no assurance that the Group will be able to obtain such long term land use right certificates in the future or at all.

Buildings without valid title certificates

As at 7 May 2008, the Group did not possess building ownership certificates for 13 buildings with a total gross floor area of approximately 123,818 sq.m. that the Group uses for production.

The following paragraphs below provided future details of these production facilities where there are issues with building ownership certificates:

Ningkai's facilities

Ningkai has not obtained the building ownership certificates in respect of three buildings with a total gross floor area of about 6,664 sq.m. The Group will attempt to rectify this defect by applying for the building ownership certificates for these three buildings. However, there can be no assurance that the Group will be successful in obtaining such building ownership certificates since no inspection and acceptance of construction completion has been made by the relevant PRC authorities after the construction of the buildings. The three buildings are currently occupied by Ningkai for welding activities, which, in the view of the Company, is not a major step in the Group's production process.

NGC's facilities

NGC has not yet obtained the building ownership certificates in respect of two buildings that are used for the Group's production process with a total gross floor area of 11,566 sq.m. Out of the three buildings, NGC has not been able to obtain the building ownership certificates for one building with a gross floor area of about 4,080 sq.m. The Group will attempt to rectify this defect by applying for the building ownership certificate for this building. However, there can be no assurance that the Group will be successful in obtaining such building ownership certificate since no inspection and acceptance of construction completion has been made by the relevant PRC authorities after the construction of the buildings. For the other two buildings, NGC is applying for the inspection and acceptance of construction completion in order to obtain the valid building ownership certificates.

Nanjing Dongalloy's facilities

Nanjing Dongalloy currently occupies two buildings that are used for the Group's production process (principally for the manufacture of spare parts) with a total gross floor area of about 2,124 sq.m. The building ownership in respect of these two buildings with a total gross floor area of 1,644 sq.m. has not been transferred to the Group by Nanjing New & High Technology. The Group is undergoing the application procedures and endeavours to obtain the valid building ownership certificates by the end of 2009.

Nanjing High Speed's facilities

Nanjing High Speed has not yet obtained the building ownership certificates in respect of two buildings that are used for the Group's production process with a total gross floor area of 45,415 sq.m. Nanjing High Speed is applying for the inspection and acceptance of construction completion for these two buildings in order to obtain the valid building ownership certificates.

Gaote's facilities

Gaote has not yet obtained the building ownership certificates in respect of two buildings that are used for the Group's production process with a total gross floor area of 40,103 sq.m. as it has not yet applied for the inspection and acceptance of construction completion. The Group, however, does intend to apply for the inspection and acceptance of construction completion in the future.

Nanjing Marine's facilities

Nanjing Marine has not yet obtained the building ownership certificate in respect of one building that is used for the Group's production process with a gross floor area of 17,946 sq.m, as it has not yet applied for the inspection and acceptance of construction completion. The Group, however, does intend to apply for the inspection and acceptance of construction completion in the future.

Under PRC law, the relevant PRC governmental authorities may impose a fine for the occupation and use of the buildings without valid title certificates and may require the Group to vacate from buildings without valid title certificates. So far no notice to vacate or penalty of any kind has been imposed on the Group for occupying and use of the buildings without valid title certificates.

Construction projects without construction permits and planning permits

As of 7 May 2008, the Group did not have construction permits and planning permits in respect of two construction projects undertaken by Gaote and Nanjing Marine, respectively. As there are uncertainties in terms of the timing of obtaining these permits, which is largely subject to the PRC governmental authorities' decision on a case-by-case basis, the Group has commenced construction of the Group's projects and applied for the relevant permits simultaneously in order to speed up the construction process. The Company believes that the Group will be able to obtain all the necessary construction and planning permits by the end of 2009. The Group has not commenced production on the above two construction projects which are intended for future expansion of the production capacities.

Under PRC law, if construction commences without a construction permit, the relevant PRC governmental authorities may request remedial actions, issue work suspension orders or impose a fine ranging between 1% and 2% of the contractual construction costs. If construction commences without a planning permit, the relevant PRC governmental authorities may request remedial actions within a specified time, impose a fine ranging between 5% and 10% of the construction cost and issue work suspension orders, demolition orders or forfeiture orders.

Safety Standards

All the building and design contractors appointed by the Company in relation to the Group's construction projects are qualified in the PRC and the Company believes that the abovementioned construction projects and the buildings should be in compliance with the relevant PRC safety standards, despite the lack of the necessary construction and planning permits and building certificates.

The Group's remedial actions

The Group does not currently possess valid title certificates for all the premises for the Group's operating factories and workshops of NGC and Nanjing High Speed, the two principal operating subsidiaries of the Group. For the three years ended 31 December 2005, 2006 and 2007, NGC and Nanjing High Speed contributed more than 90% of both the Group's total consolidated net profit and total consolidated turnover.

In order to secure the use of the relevant land and properties, the Group has submitted applications to the relevant PRC governmental authorities with a view to obtaining the relevant title certificates and permits as soon as possible. In respect of Ningkai's properties which lack land use right certificates, the Group received a written confirmation issued by Yuhuatai Land Resources Bureau of Nanjing City on 1 March 2007, which confirmed that there would be no major obstacles for the Group to obtain the land use right certificates. In respect of Nanjing Dongalloy's facilities, although Nanjing New & High Technology has not obtained the valid land use right and building ownership certificates and hence it is unable to transfer such titles to the Group, according to the written confirmation issued by Nanjing New & High Technology on 8 March 2007, the relevant PRC governmental authorities are undergoing the procedures for transfer of the land use right and building ownership to the Group and there are no major obstacles for it to obtain the land use right and building ownership certificates.

The Company expects that the majority of the relevant title certificates and construction and planning permits as described above will be obtained by the end of 2009. Whilst the Group will use its best endeavours to obtain the outstanding title certificates, there is no assurance that such title certificates will be obtained within the expected timeframe since the grant of such certificates is subject to the discretion of the relevant PRC governmental authorities.

If the Group fails to obtain the relevant title certificates and permits, its rights as owner of these properties may be adversely affected and it may be subject to the penalties and/or other actions that may be taken by the relevant PRC governmental authorities. However, as at the date hereof, the relevant PRC governmental authorities have not imposed any penalty nor expressed any intention to impose any penalty on the Group in respect of its land and properties which lack the relevant title certificates and permits.

Each of Fortune Apex, Wiaearn and Luckever, being members of the Controlling Group, has provided an indemnity in the Company's favour in respect of the losses, if any, arising from the title defects relating to the Group's PRC land and properties.

Electricity Supply

The Group receives electricity supplies from the state power grid in order to ensure a safe and steady electricity supply for its operations. Due to the nationwide shortage of electricity in 2004, the Group constructed a power generator which is designed to supplement its electricity needs in the event of a sudden power shortage or breakdown. The Group used the power generator on two occasions in 2005 and has not used it since. The Company expects such power generator to supplement the Group's electricity requirements should it experience any shortage of electricity in the future.

Quality Control

The Group implements a quality control and inspection system throughout its production processes with a view to complying with the product specifications requested by its customers and ensuring the quality of its products. The Group carries out a quality assurance inspection at the completion of each major manufacturing step in order to ensure the quality of its mechanical transmission equipment. Quality assurance inspections are carried out using various precise testing devices such as a 3-dimensional co-ordinate measuring device imported from Germany.

To enhance its quality control and related systems, the Group has employed three former officers from Mitsubishi Corporation in Japan since 2004. These three officers assist the Group in implementing quality control measures and assist in the adoption of various quality programmes, including the “5S” production management method. The “5S” production management method is a reference to five Japanese words that describe standardised clean-up in the course of production. The five Japanese words are *seiri* (i.e. tidiness), *seiton* (i.e. orderliness), *seiso* (i.e. cleanliness), *seiketsu* (i.e. standardise) and *shitsuke* (i.e. sustaining discipline).

The Group also invites quality control specialists from companies such as GE to provide training to its staff from time to time with a view to enhancing its quality control in different production processes.

Research, Design and Development

As at 31 December 2007, the research, design and development team of the Group comprised approximately 230 staff members. The Group spent RMB25.2 million, RMB30.9 million and RMB58.4 million on research and development activities for the three years ended 31 December 2005, 2006 and 2007, respectively, part of which has been capitalised. The Company intends to continue to invest in research, design and development for the Group’s business going forward. Based on its current business plan, the Company intends to spend approximately RMB400 million in aggregate on research, design and development activities for 2008, 2009 and 2010.

The Group uses several software programmes, including KISSsoft calculation programmes and ANSYS finite element analysis tool to comply with various international quality certifications as well as international guidelines and requirements relating to the production of mechanical transmission equipment.

The Group’s current product development efforts are focused on Wind Generation Gear Transmission Equipment, Marine Gear Transmission Equipment and Rail Gear Transmission Equipment.

The Group has worked with a number of its international strategic business partners to jointly build on research, design and development capabilities. In August 2006, NGC entered into a joint development agreement with GE for the development and manufacture of Wind Generation Gear Transmission Equipment for GE’s 1.5 MW wind turbine generators. Trial tests for such 1.5 MW Wind Generation Gear Transmission Equipment were completed successfully in February 2008 and a research and development team has been recently established to develop Wind Generation Gear Transmission Equipment for GE’s 2 MW wind turbine generators, which is expected to be ready for production during the first quarter of 2009. In April 2007, the Group entered into a development support service agreement with Alstom Group to design and develop Rail Gear Transmission Equipment. In October 2005, the Group entered into a strategic cooperation agreement with Dongfang for the joint development of Wind Generation Gear Transmission Equipment for 1.5 MW wind turbines whereby the Group agreed to supply 1.5 MW Wind Generation Gear Transmission Equipment to Dongfang. At the initial stage, the parties co-developed two types of 1.5 MW Wind Generation Gear Transmission Equipment. In addition, in June 2006, the Group established the joint venture company, ZF Nanjing, with ZF China to assemble and sell 800 horsepower or above series Marine Gear Transmission Equipment. The Group also intends to develop and supply controllable pitch propellers for ZF Padova S.P.A., another subsidiary of ZF and entered into a memorandum of understanding with ZF Padova S.P.A. in August 2006 whereby the Group was designated as the sole production and assembly base for the commercial craft segment product controllable pitch propeller.

Marketing, Sales and After Sales Service

Marketing strategy and sales

The Group’s sales and marketing team, which consisted of over 160 sales and marketing executives as at 31 December 2007, formulates the Group’s overall marketing and sales strategies and is responsible for negotiating contracts with the Group’s customers. Most of the Group’s sales and marketing executives, who are

university graduates, are experienced in the mechanical transmission equipment industry and are familiar with the technical specifications of the Group's products. The Group also has certain sales personnel responsible for the sales and marketing of mechanical transmission equipment to its customers that have customised design and production requirements.

After-sales services and technical assistance

The Group's sales and marketing executives are also responsible for providing after-sales service and technical assistance to its customers. The Group's policy is to attend to any request for after-sales maintenance and repair services on site within 12 to 24 hours after receiving a request from its PRC customers located in Jiangsu Province and its surrounding areas. The Group also provides technical assistance to its customers in the PRC for the installation of its goods. For customers located in other areas, the Group endeavours to respond to their queries with 48 hours and to provide follow-up services and support as soon as possible.

Sales targets

The Group's annual sales targets are usually pre-determined late in the preceding year, taking into account the current year's performance and trends which are expected to affect sales of the Group in the following year. To encourage the Group's sales personnel to achieve greater sales targets, remuneration packages are tied to sales performance.

Customers

The Group's products are sold to reputable domestic and international customers. Goldwind, a leading manufacturer of wind turbines in the PRC, is one of the Group's major Wind Generation Gear Transmission Equipment customers. Dongfang, being another leading manufacturer of wind turbines in the PRC and Shanghai Electric Wind Power Equipment Co., Ltd. are also the Group's PRC-based Wind Generation Gear Transmission Equipment customers. The Group's PRC-based customers for its other products include Baoshan Iron & Steel Co., Ltd. (a steel manufacturer in China), Yiyang Rubber & Plastics Machinery Group Co., Ltd. (a rubber and plastic machinery manufacturer in China), CISDI Engineering Co., Ltd. (a consultancy and engineering firm engaged in the metallurgy industry), China National Machinery & Equipment Import & Export Corporation (a machinery trading firm in China), China First Heavy Industries (a machinery manufacturer in China) and Tianjin Cement Industry Design & Research Institute Co., Ltd. (a contractor of cement-related equipment in China).

The Group's international customers for its Wind Generation Gear Transmission Equipment include GE, Nordex, REpower, and Fuji Heavy Industries Ltd. In April 2007, the Company entered into a development support service agreement with Alstom Group, one of the world's leading railway infrastructure technical service providers based in France, in relation to the design and development of Rail Gear Transmission Equipment.

The export of the Group's products is not subject to any quota restrictions. For the three years ended 31 December 2005, 2006 and 2007, the Group's revenue generated from export sales accounted for 8.3%, 11.7% and 16.5%, respectively, of the Group's total revenue. The Company expects its sales to overseas customers to grow significantly in the near future as the Group will increase its export sales of the Wind Generation Gear Transmission Equipment, Marine Gear Transmission Equipment and Rail Gear Transmission Equipment.

The Group's products are applied in many products across different industries. As such, the Group's business is not overly reliant on any particular industry and its top five customers tend to vary from year to year. The Group's five largest customers accounted for an aggregate of 16.6%, 30.0% and 43.8% of its total revenue for the three years ended 31 December 2005, 2006 and 2007, respectively. During the same period, the Group's largest customer accounted for 4.8%, 19.1% and 15.8%, respectively, of its total sales. None of the Group's Directors or their respective associates (as defined in the listing rules of the Hong Kong Stock Exchange), or its existing shareholders who, to the knowledge of its Directors, own more than 5% of its issued share capital, has any interest in any of its five largest customers.

Credit Policy

The Group's policy is that all purchase orders must be fully paid up by its customers within 18 months from the date of the purchase order. Typically, the Group's customers pay a 25% to 30% deposit upon the signing of a purchase order, another 25% to 30% when the products purchased are being manufactured and the balance, subject to an amount of 5% to 10% of the purchase price retained by the customer as described below, upon delivery to customers, or upon installation and testing of the products by the customers. It is very common for the Group's customers to withhold a percentage of the total contract price, generally 5% to 10% of the total contract price as retention monies, to secure its performance over the warranty period. Usually, the credit period granted to both domestic and overseas customers for each scheduled payment varies from 90 to 180 days. The Group continues to attempt to collect account receivables from its customers even after the credit period has expired and the Group's staff will follow up with these customers and request payment, a process which inevitably takes time. The Group will only deem trade receivables uncollectible after careful consideration and after having attempted to collect such trade receivables from its customers. Trade receivables aged over three years are generally deemed to be uncollectible or unlikely to be collectible. As at 31 December 2005, 2006 and 2007, the Group's accumulated impairment for doubtful debts for trade and notes receivables amounted to RMB23.2 million, RMB28.1 million and RMB31.5 million, representing 5.6%, 5.3% and 4.9% of the Group's trade and other receivables, respectively. For the three years ended 31 December 2005, 2006 and 2007, the amount of impairment loss on trade and other receivables actually made amounted to RMB6.6 million, RMB5.0 million and RMB3.5 million, respectively.

Warranty Policy

The Group typically offers warranty on its mechanical transmission equipment for a period of 12 months from collection or delivery of the finished product or from the installation of its product into the customer's machine during which time faulty products will be repaired or replaced. For some of the Group's products, such as Wind Generation Gear Transmission Equipment for its overseas customers which usually require more time for transportation, assembling and testing, the warranty period may be up to 18 months. The Group's customers typically request to retain 5% to 10% of the purchase price of its products as security for its performance of obligations during such warranty period and none of its customers forfeited such retained sums during the three years ended 31 December 2005, 2006 and 2007. The total amount of retention as at 31 December 2005, 2006 and 2007 was RMB33.0 million, RMB38.1 million and RMB42.3 million, respectively. Provisions were made, in accordance with the Group's provisioning policy when the amounts retained were not recovered after the expiry of the warranty period.

Inventory and Inventory Allowance Policies

Raw materials are recorded at cost. The cost of raw materials comprises all costs of purchase, costs of conversion, and other costs incurred to bring inventories to their present location and condition. Inventories mainly include raw materials, work in progress, and finished goods.

Raw materials are accounted for using the actual costing method. In determining the cost of raw materials transferred out or issued for use, the actual costs are determined by the weighted average method.

The Group purchases raw materials from time to time based on its production plan and its needs for the future two to three months. The Group usually maintains a minimum level of raw materials which is sufficient for its production demands for at least one month.

Inventories are stated at the lower of cost and net realisable value. Net realisable value represents the estimated selling price for inventories in the ordinary course of business less the estimated costs of completion and costs necessary to make the sale. The Group regularly reviews the market value of its inventories based on its estimate of future demand for its products and other market conditions. Moreover, the Company performs annual

stock take through which it can identify obsolete items. Allowance will be made against inventories should the net realisable value of inventories fall below the costs or any of them are identified as obsolete. However, as its inventories are not commonly subject to wear and tear and its products do not become obsolete easily, the Group does not have any provision for inventories based on their aging analysis.

Suppliers of Raw Materials

The major raw materials used in the Group's products include forged steel, cast iron, foundry steel, bearings and steel plates. The Group outsources some of its raw material processing work to independent third parties, primarily under the following four circumstances (i) when certain simple, labour-intensive manufacturing processes could be done less expensively when outsourced; (ii) when the Group does not have the production capacity to undertake the process; (iii) when certain products require specialised processing which the Group is unable to carry out because the Group does not have the necessary equipment; and (iv) when products require certain specialised treatment due to environmental issues which the Group is unable to carry out because the Group does not have the necessary equipment or expertise. The Group spent RMB172.9 million, RMB172.1 million and RMB228.5 million for outsourced processing for the three years ended 31 December 2005, 2006 and 2007, respectively. The Group also purchases some processed raw materials for its production needs. The Group has a panel of over 100 third parties to perform the processing work and the top ten service providers vary from time to time. Therefore, the Group considers that it does not rely on any particular third party service providers. The Group's expenditure on raw materials, including outsourced processing, for the three years ended 31 December 2005, 2006 and 2007 accounted for 83.6%, 83.1% and 82.6%, respectively, of the Group's total costs of goods sold. The table below illustrates the average prices per ton of the Company's major raw materials for the three years ended 31 December 2005, 2006 and 2007:

	For the year ended 31 December		
	2005	2006	2007
	(RMB per ton)		
Steel plates	3,850	3,167	4,782
Bearings	4,226	4,257	5,505
Cast iron and forged steel	9,177	9,078	10,287

The average prices are determined by dividing the costs of raw materials by the volume of raw materials consumed during the three years ended 31 December 2005, 2006 and 2007.

The Company believes that the price fluctuations of its major raw materials during this period are due to normal market fluctuations from time to time.

Procurement through bidding

The Group procures a majority of its raw materials through bidding exercises in order to lower the prices for raw materials. The practice of procuring raw materials through the soliciting of bids was started in 1999 to ensure that the Group purchased raw materials of high quality at competitive prices. At the same time, the Group implemented a "just-in-time" method to manage the procurement of raw materials in order to minimise cash usage and maintain inventory at appropriate levels.

The Group procures three categories of raw materials with respect to which it requires supply on a frequent basis. The first category comprises materials that are standard and commonly available from many suppliers, such as steel plates. These raw materials require processing before entering into the Group's production process. The second category comprises materials that also require processing before entering the Group's production process, such as forged steel. Such raw materials are usually more complex and require longer periods of time to produce. The third category is bearings which are readily available in the market and which require no

processing. For all three categories of raw materials, the Group contracts with the chosen supplier on the basis of an agreed price per unit, per set or per ton of the raw material concerned. In the course of that year, the Group will purchase the raw material based on the contract price. At the end of the period, if the Group's chosen supplier offers it competitive prices, it will renew the supply contract with that supplier. Otherwise the Group will carry out the bidding exercise again.

The Group only invites bids from suppliers who have passed its internal quality assessment to submit bids for its consideration. Additional considerations include the suppliers' historical business track records and whether they possess the requisite regulatory permits, approvals and licenses to carry on their respective business. For each piece of outsourcing work, six to seven suitable candidates will be short-listed to participate in the bidding exercise. The Group carries out regular audits at the factory sites of its suppliers to ensure that they remain compliant with its quality requirements.

Before a bidding process, the Company's subsidiaries submit their procurement needs to its bidding department. Based on its procurement needs, the Company invites the qualified suppliers to submit their bids. As all the bidders have already passed its quality assessment, the Company selects its suppliers based on the prices they offer during the bidding process.

The credit terms extended by the Group's suppliers to the Group generally depend on its relationship with the suppliers. A few suppliers require the Group to make prepayments for its orders for purchases. The credit terms granted to the Group by its major suppliers are usually three to five months after satisfactory inspection of the raw materials received. Because of the time involved in the inspection of raw materials and because the Group is billed by its suppliers usually once a month, the credit terms are usually as long as 100-180 days starting from the time when the raw materials are received.

For the three years ended 31 December 2005, 2006 and 2007, the purchase of raw materials from the Group's five largest suppliers accounted for 15.9% 26.8% and 28.6% of the Group's total purchases of raw materials, respectively. During the same period, the purchase of raw materials from the Group's largest supplier accounted for 4.4%, 8.5% and 9.1% of its total purchases of raw materials, respectively. The Group does not rely on any particular supplier for its supply of raw materials as it is able to purchase its raw materials from many suppliers. None of the Group's Directors or their respective associates (as defined in the Listing Rules of the Hong Kong Stock Exchange), or its existing shareholders who, to the knowledge of its Directors, own more than 5% of its issued share capital, has any interest in any of its five largest suppliers.

Competition

The Group faces competition in the domestic and international markets in which it operates. Domestically, a few large scale manufacturers of mechanical transmission equipment such as Chongqing Gearbox Co., Ltd. and Hangzhou Advance Gearbox Co., Ltd compete with it in the production and sale of mechanical transmission equipment. The Group also faces competition from international manufacturers, such as SEW-Eurodrive Group, Winergy Power, LLC and Hansen Transmissions International NV. in respect of its high-end and high-precision series of products, such as Wind Generation Gear Transmission Equipment and General Purpose Gear Transmission Equipment. These international manufacturers may have worldwide offices and sell products to international customers as well as customers in China. Larger overseas competitors may have competitive advantages over the Group in certain areas such as access to capital, technology, product quality, economies of scale and brand recognition.

Intellectual Property

The Group's intellectual property rights are important to its business as its products are manufactured using advanced technologies and processes that are designed for professional industrial uses. As at 31 March 2008, the Group had registered two trademarks in the PRC and two trademarks in Hong Kong and 30 patents (including

two invention patents, three design patents and 25 utility model patents) in the PRC and had another pending trademark and 11 other pending patent applications in the PRC.

The Group's patents primarily relate to production technology. Due to the increasing recognition of intellectual property rights in the PRC, the Group has implemented an active programme to protect its intellectual property rights by progressively applying for patent registration of all of its existing registrable product technology, which relate to the production design, production processes and cutting techniques. The Group also continuously seeks new patents for products and technologies developed through its research, design and development activities.

The Group is conscious about protecting its intellectual property rights and requires all of its employees, ranging from management staff, research, design and development staff, technical staff, sales staff to workers, to sign a confidentiality agreement which covers a wide range of confidential information including commercial secrets, manufacturing methods, technical plans and reports, industrial processes, product designs, records of research, design and development.

Information System

The Group's existing information management system has been in place since 2000 and incorporates a software application from Oracle, known as Oracle Application R11i, that integrates various information in relation to, among other things, its procurement, production and sales as well as other financial data under one system. The centralisation of this data enables the Group to comprehensively manage its manufacturing processes, supply chains, logistics, information flows, fund flows and inventory control through real time input and status checks of its purchases and orders, raw material inventory levels, accounts receivables and accounts payables and monitor its production schedule, logistics support and warehousing needs.

The Group also employs recent technology such as CAD in its product design and formulation, XTMCAD for its two-dimensional designs, XTCAPP for refining the production process and quality of its products and computer-aided design software such as Solid Edge for its three-dimensional designs. The Group also uses KISSsoft calculation programme for designing and developing its products and assessing the durability of mechanical transmission equipment. KISSsoft is a software applied for design, optimisation and analysis of power transmission and machinery components including gears, shafts, shaft-hub connections and complete gearboxes, and assists in calculating the strength or lifetime of these components. In addition, the Group uses ANSYS finite element analysis tool for assessing the quality and precision standards of its products. It is an integrated, modular and extensible simulation system used to predict how product designs will behave in manufacturing and real-world environments. Since the introduction of these systems and CAD software, the Group has not experienced any material failure thereof.

To ensure the integrity of the Group's information system, the Group adopts customary precautionary measures such as regular back-ups for its data, the installation of firewalls and anti-virus softwares to prevent intrusion by hackers. Access, search, downloading and amendment of the Group's technical know-how is restricted to limited personnel based on their positions within the Group, and access is granted only on a need-to-know basis with a view to preventing any loss of its intellectual property rights.

Employees

As at 31 December 2007 the Group employed 2,888 full-time employees. The following table sets forth the total number of employees by function as of 31 December 2006 and 31 December 2007:

	As at			
	31 December 2006		31 December 2007	
	<u>Number of employees</u>	<u>(%) of total</u>	<u>Number of employees</u>	<u>(%) of total</u>
Production	1,233	55.0%	1653	57.2%
General and administration	222	9.9%	275	9.5%
Research and development	202	9.0%	230	8.0%
Technical services	148	6.6%	193	6.7%
Sales and marketing	146	6.5%	161	5.6%
Raw materials procurement	98	4.4%	127	4.4%
Quality control	109	4.9%	161	5.6%
Others	<u>83</u>	<u>3.7%</u>	<u>88</u>	<u>3.0%</u>
Total	<u><u>2,241</u></u>	<u><u>100.0%</u></u>	<u><u>2,888</u></u>	<u><u>100.0%</u></u>

The Group has entered into labour contracts with each of its employees as required under the PRC law. The Group has entered into fixed term employment contracts from one to five years with the majority of its employees and longer term labour contracts with some of its more senior and technically skilled employees. In addition, according to the PRC labour law, employees who have been employed by a company for ten years or more must be offered labour contracts with an indefinite term upon an employee's request. Therefore, the Group has also entered into long-term labour contracts with certain employees falling under this category.

To ensure the quality of its employees and management of its headcounts, the Group's human resources department centralises the recruitment of employees above the middle management and technical employees. The Group's other employees are recruited by its respective subsidiaries. The Group generally recruits graduates with degrees in mechanical engineering and some of the Group's employees are graduates from leading universities in the PRC such as Tsinghua University and Harbin Institute of Technology. In addition, the Group has devoted resources to training its employees. The training opportunities provided to its employees include a one-year structured programme for new employees, ongoing education and training programmes, and to some outstanding employees, training courses for technicians organised by professional organisations, masters degree in engineering programmes and MBA programmes organised through the Group's collaboration with various leading universities in the PRC, and various international technical conferences and exhibitions in the PRC.

In order to retain employees who have received training, the Group generally requires employees who have completed the master degree programmes to remain in the Group's employment for a period of at least ten years.

The salary levels for the Group's different categories 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 achieve technical breakthroughs.

All of the Group's employees belong to a trade union that is a member of the All China General Trade Union. The Group has entered into a contract with its trade union on the mechanism for salary reviews, employee

benefits, training, insurance, safety, sanitary standards and the mechanism for dispute resolution. The Company has not experienced any material labour disputes and considers its relationship with its employees to be good.

Insurance

The Group maintains comprehensive insurance coverage on certain of its plants which also includes coverage on equipment and machineries located inside these plants. The amounts insured are the cost of these plants and the respective equipment and machinery at cost. The Group also maintains insurance coverage on certain of its motor vehicles at cost. The Group does not maintain product liability insurance and it has not had any material product liability claims made against it in the past. It also does not maintain insurance for losses caused by the discontinuation of service of its key management and technical staff. However, the Group may consider maintaining product liability insurance if its customers specifically request it to do so.

The Company believes that the above insurance coverage is sufficient to cover the potential risks posed by the Group's business and operations. The Group has not made any claims against the relevant insurance companies under the comprehensive insurance policies in respect of its plants and vehicles.

Environmental Compliance and Safety

The Group has a safety and environment department that is responsible for regulating its work safety and health conditions, ensuring its business and operations comply with applicable work safety and environment protection requirements and monitoring its continual compliance in these two areas. To recognise the Company's efforts and its outstanding performance in environmental protection, the Nanjing Yuhuatai District Environmental Protection Committee granted the Company the title of an "Advanced Unit in Environmental Protection" on 20 February 2006.

As the mechanical transmission equipment industry is not considered by the Ministry of Environmental Protection of the PRC as a heavy pollution industry in the PRC, it is not subject to any specific environment protection regulations. Laws and regulations on environmental protection that are applicable to the Group are mainly general PRC laws and regulations on environmental protection, noise and the treatment of industrial waste. The Group has constructed a water treatment facility to treat its wastewater before it is discharged and the environment authority from Nanjing Environmental Bureau has certified that such facility meets the requisite environmental standards. The Group obtains a sewage discharge permit from the PRC environmental protection authority every year in accordance with the relevant PRC laws and regulations. Oil waste, iron and steel waste and industrial waste are properly stored and sold to parties that are properly licensed to perform recycling of such waste. The Group has also installed facilities to filter noises of the factory production processes. For the three years ended 31 December 2005, 2006 and 2007, the Group incurred expenses of RMB0.3 million, RMB0.4 million and RMB4.4 million in relation to environmental protection. The Group currently does not have any specific capital expenditure plan in relation to environmental protection and will devote operating and financial resources on environmental protection as and when it is required by PRC laws and regulation to do so.

The Group has implemented an internal environmental protection assessment measure that requires each production unit to report their waste level to the safety and environmental department and complete a checklist of such waste to confirm their compliance with its environmental related requirements from time to time. The Group's safety and environmental department oversees its compliance in relation to safety and environmental issues and aims to assist the Group in complying with the applicable laws and regulations by setting different targets and strategies.

The Group is not aware of any threatened or pending action by any environmental regulatory authority in any place where it operates its business. In addition, the Group implemented the ISO 14001 environmental management system and obtained the relevant certification in April 2007.

As at 30 April 2008, the Group has complied with the PRC laws and regulations on workplace safety that are applicable to its operations.

Legal Proceedings

As at 30 April 2008, there were no current litigation or arbitration proceedings or any pending or threatened litigation or arbitration proceedings against the Group or any of its Directors that could have a material adverse effect on its financial condition or results of operations.

Connected Party and Related Party Transactions

Lease between Ningkai and Nanjing Yuhuatai District Saihong Bridge Street Office (“Saihong Street Office”)

Ningkai (an indirect non-wholly owned subsidiary of the Company) and Saihong Street Office (a substantial shareholder of Ningkai) entered into a contract on 13 February 2007 in relation to the temporary lease for /right to use a piece of land located at Youfang Qiao, Nanjing, owned by Saihong Street Office.

On 2 March 2007, Ningkai and Saihong Street Office entered into a new contract (“**New Contract**”) to supersede the contract dated 13 February 2007. Pursuant to the New Contract, Saihong Street Office and Ningkai have agreed that Ningkai may use the piece of land located at Youfang Qiao, Nanjing, for an annual consideration of RMB1,030,000 (HK\$1,051,020) for a term from 1 January 2007 to 31 December 2008.

The New Contract is made on commercially reasonable terms and on an arm’s length basis.

Pre-emptive Rights Agreement amongst members of the Controlling Group

On 8 June 2007, members of the Controlling Group entered into the Pre-emptive Rights Agreement with effect from the Listing in order to consolidate their control over the Company. Each member of the Controlling Group, shall, amongst other things, have a right of first refusal to purchase Shares from other members of the Controlling Group in accordance with the agreement. The Pre-emptive Rights Agreement shall terminate upon the third anniversary of the Listing Date. The price and terms for the purchase of Shares pursuant to the exercise of pre-emptive rights shall be determined by reference to (i) in respect of a proposed off-market disposal, the price and terms offered to or by third party(ies); or (ii) in respect of a proposed on-market disposal, the closing price on the trading day preceding the proposed date of disposal.

For the Company’s related party transactions, see note 39 to the consolidated financial statement included in the Company’s 2007 Annual Report.

DIRECTORS AND SENIOR MANAGEMENT

Board of Directors and Senior Management

The Company's board of directors ("Board") consists of twelve directors, three of whom are Independent Non-Executive Directors. The powers and duties of the Board include: convening shareholders' meetings and reporting the Board's work at the shareholders' meetings, implementing the resolutions passed at the shareholders' meetings, determining the business plans and investment plans, formulating the annual budget and final accounts, formulating proposals for profit distributions and for the increase or reduction of registered capital as well as exercising other powers, functions and duties as conferred by the Company's Articles of Association. The Company has entered into service contracts with each of the Executive Directors and Independent Non-Executive Directors. The members of the Board and the senior management of the Company as at the date of this Offering Circular are as follows:

<u>Name</u>	<u>Age</u>	<u>Title</u>
Mr. Hu Yueming	59	Chairman, Chief Executive Officer and an Executive Director
Mr. Chen Yongdao	45	Executive Director
Mr. Lu Xun	53	Executive Director
Mr. Li Shengqiang	54	Executive Director
Mr. Liu Jianguo	39	Executive Director
Mr. Liao Enrong	47	Executive Director and a Director of NGC
Mr. Zhu Keming	28	Non-executive Director
Mr. Zhang Wei ⁽²⁾	43	Non-executive Director and a Director of NGC
Mr. Wang Qi ⁽¹⁾	45	Non-executive Director
Mr. Jiang Xihe ⁽¹⁾⁽²⁾	50	Independent non-executive Director
Mr. Zhu Junsheng ⁽¹⁾	68	Independent non-executive Director
Mr. Chen Shimin ⁽²⁾	49	Independent non-executive Director
Mr. Lui Wing Hong, Edward	45	Chief Financial Officer and Company Secretary
Ms. Zhou Jingjia	44	Financial Controller of NGC
Mr. Zhang Xueyong	44	Deputy Head of the Financial Department of NGC
Mr. Wang Zhengbing	36	Deputy General Manager of Nanjing High Speed
Mr. Wang Zhengrong	41	Deputy General Manager of Nanjing High Speed
Mr. Xu Yong	35	Deputy Head of the Financial Department of NGC
Mr. Zhou Zhijin	35	Deputy General Manager of Nanjing High Speed

Notes:

(1) Member of the Board Audit Committee

(2) Member of the Board Remuneration Committee

The biographies of the Executive Directors, Non-executive Director, Independent Non-executive Directors and the Senior Management as at the date of this Offering Circular are as follows:

EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 59, is the Chairman, Chief Executive Officer as well as executive Director. Mr. Hu is a university graduate and a senior engineer by profession. He gained management experience by initially serving as the deputy head of the equipment section of Nanjing Engineering Equipment Factory and then its deputy workshop head and deputy factory manager. He later served as the deputy general manager of Nanjing Engineering Equipment Factory and the general manager of Nanjing Atlas Copco Construction Machinery Ltd. Mr. Hu has engaged himself in the management of machinery and industrial enterprises for more than 20 years

and has worked as a factory director and a general manager of various state-owned enterprises and foreign-invested enterprises. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. He became the vice-chairman and the general manager of NGC in August 2001. Mr. Hu also holds directorship in certain subsidiaries of the Group, namely Gaote, Nanjing Dongalloy, Nanjing High Speed, Ningkai, Nanjing High Accurate Wind Power Transmission Equipment Co., Ltd. (“**Nanjing Wind Power**”), Ningtai, Yongte, Nanjing Marine, Nanjing High Accurate Drive Equipment Manufacturing Corporation Limited (“**Nanjing Drive**”), Ninghongjian, Eagle Nice, Goodgain and China Transmission Holdings Limited (“**China Transmission Holdings**”). Mr. Hu, an expert on mechanical transmission equipment technology and business management, is also a council member of the China Gear Manufacturing Association and has been awarded the title of “Outstanding Entrepreneur of the Machinery Industry” by the China Machinery Industry Federation in 2004.

Mr. Chen Yongdao, aged 45, is a postgraduate in economics and a senior engineer by profession. He was initially the deputy head of the inspection and gauging section of Nanjing High Speed Gear Factory, head of the production allocation section of the factory and then deputy general manager. He became a director and the deputy general manager of NGC in August 2001. Mr. Chen also holds directorship in certain subsidiaries of the Group, namely Nanjing Dongalloy, Nanjing High Speed, Ningkai, Nanjing Marine, Nanjing Drive and China Transmission Holdings. Mr. Chen, an expert on heat treatment of metallic materials, has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment for more than 20 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Lu Xun, aged 53, is a university postgraduate and senior engineer by profession. He initially worked as the deputy head of the quality assurance section, then deputy head of the technology section, then head of the operational planning section, then deputy chief economist, then head of the operational planning division, and then deputy general manager of Nanjing High Speed Gear Factory. He became a director of and also deputy general manager of NGC in August 2001. Mr. Lu also holds directorship in certain subsidiaries of the Group, namely Nanjing High Speed, Shenyang Sales Co., Eagle Nice, Goodgain, Nanjing Drive and China Transmission Holdings. Mr. Lu, an expert on marketing management for mechanical transmission equipment, has engaged in the marketing of mechanical transmission equipment for more than 20 years and has rich experience in marketing management and client resources.

Mr. Li Shengqiang, aged 54, is a university graduate. He initially worked as a deputy secretary of the youth corps committee in Nanjing High Speed Gear Factory, then the deputy party secretary of the tools section of Nanjing High Speed Gear Factory, then Chairman of the Workers’ Union of Nanjing High Speed Gear Factory, and later general manager of Yongte. He became a director of NGC in August 2001, and deputy general manager of NGC in March 2004. Mr. Li also holds directorship in certain subsidiaries of the Group, namely Gaote, Nanjing High Speed, Ningkai, Yongte, Nanjing Wind Power, Eagle Nice, Goodgain, Nanjing Drive and China Transmission Holdings. He is also the general manager of Gaote. Mr. Li has engaged in the enterprise management of our Group for more than 25 years and has rich experience in mechanical transmission equipment production management.

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

Mr. Liao Enrong, aged 47, is an executive Director and a director of NGC. Mr. Liao is a postgraduate and a senior engineer by profession. He joined the Nanjing High Speed Gear Factory in 1984 and worked as its deputy head and then head of the workshop, then head of the technological reform section, then deputy chief engineer, then head of the enterprise management section, then assistant to general manager. He has been the secretary to the board of directors of NGC since August 2001, and was the assistant to NGC's general manager and the head of NGC's investment operations division since September 2001. Mr. Liao has been a deputy general manager of NGC since January 2003. Mr. Liao has experience in the heat treatment of metallic materials and has spent more than 20 years in technical and investment management. Mr. Liao also holds directorship in certain subsidiaries of the Group, namely Nanjing Dongalloy, Nanjing High Speed, Ningkai, Shenyang Sales Co., Nanjing Wind Power, Nanjing Marine, Goodgain, Nanjing Drive, Ninghongjian and China Transmission Holdings.

NON-EXECUTIVE DIRECTORS

Mr. Zhu Keming, aged 28, is a university graduate in Finance. He has worked as Secretary of the Board of Directors of Jiangsu Zhongtai Group Co., Ltd. since 2002, Mr. Zhu has been our Director since 27 July 2006. He is also an employee of Jiangsu Zhongtai Group Co., Ltd., a PRC company owned and controlled by Mr. Liu Xuezhong and his wife, Ms. Li Yuelan, who together own and control Luckever Holdings Limited.

Mr. Zhang Wei, aged 43, is a non-executive Director and also a director of NGC. Mr. Zhang is a university graduate in semiconductor physics and holds a master in business administration. Since 1998, he has been the secretary to the board of directors, assistant to the chief executive officer, deputy chief executive officer, director and chief executive officer of Hiteker High Technology Co., Ltd. He is currently a director and general manager of Jiangsu VC which in turn owns and controls Wise-Win Technology Limited. Mr. Zhang has been our Director since 27 July 2006. Mr. Zhang is also a director of China Transmission Holdings, a subsidiary of the Company.

Mr. Wang Qi, aged 45, graduated from Peking University with a degree in World History. He has previously worked in a number of financial institutions including Guotai Junan Securities in Hong Kong. In 2000, he became a director of the corporate finance division of Chinney Alliance Group. In 2002, he served as Deputy Chief Executive Officer of Titan Holdings (HK) Limited, a listed company engaging in oil shipping and storage in China and Singapore. In 2004, he became the managing partner of Asian Capital Partners Limited and was in charge of financial services for the European Development Banks operating in China. He currently serves as a director of Development Partners Fund and executive partner of Development Principles (Hong Kong) Limited. Mr. Wang has been our Director since 27 July 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xihe, aged 50, passed the examination organized by the examination committee for certified accountants of the Ministry of Finance and obtained professional accounting qualification recognized in the PRC in July 1999. He is currently a professor at the Faculty of Accounting and Financial Management of Nanjing Normal University and the deputy dean of Jinling Girl's College, Nanjing Normal University. He graduated from the Faculty of Accounting at the Central University of Finance and Economics in June 1990. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association. Mr. Jiang joined the Company on 8 June 2007 as independent non-executive Director.

Mr. Zhu Junsheng, aged 68, is experienced in the renewable energy industry, one of the markets that our products are focused on. Mr. Zhu is currently director of the Renewable Energy Professional Committee of the China Association of Resource Comprehensive Utilisation, honorary president of the wind machinery branch of the Chinese Farm Machinery Industrial Association and a board member of the China Energy Research Society. Mr. Zhu joined the Company on 8 June 2007 as an independent non-executive Director.

Mr. Chen Shimin, aged 49, is an associate professor and Ph.D. supervisor of the School of Accounting and Finance of The Hong Kong Polytechnic University. He is also a guest professor and Ph.D. supervisor of the Department of Accounting, Nanjing University and School of Accounting, Shanghai University of Finance and Economics. Mr. Chen obtained the qualification of management accountant registered in the United States, and is a member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. Mr. Chen obtained a bachelors degree and a masters degree in economics (majoring in accounting) from Shanghai University of Finance and Economics in 1983 and 1985, respectively. He also obtained a doctoral degree majoring in accounting from the University of Georgia, the United States, in 1992. He has obtained a number of academic awards such as “Col. Jean M. Migliorino and Lt. Col. Phillip Piccione Award for Research Excellence, 2004” presented by B.I. Moody III College of Business Administration, The University of Louisiana and “Distinguished Paper Award, 2001 Second Prize” presented by Accounting Society of China. He has also obtained a number of research grants including those supported by the Research Grant Council of the Hong Kong Special Administrative Region and the National Science Foundation of the People’s Republic of China. Mr. Chen joined the Company on 8 June 2007 as an independent non-executive Director.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 45, is our chief financial officer, company secretary and qualified accountant. He is responsible for the financial and accounting management and secretarial affairs of the Company. He graduated from York University with a Bachelor of Arts degree in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is an associate member of the Australian Society of Certified Practising Accountants and a member fellow of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Group in June 2006. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Company. He is currently the independent non-executive director of Zhejiang Shibao Company Limited (a company listed on GEM of the Stock Exchange).

Ms. Zhou Jingjia, aged 44, is the financial controller of NGC. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. From 1 January 2006, Ms. Zhou was transferred from Nanjing Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the country manager overseeing the accounting departments of the Atlas Copco Group’s certain product companies in China. Ms. Zhou graduated from Suchou University in 1986, majoring in accountancy. Ms. Zhou is a member of the CICPA and a qualified accountant by profession. Ms Zhou joined the Group in July 2006. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Speed and China Transmission Holdings Limited.

Mr. Zhang Xueyong, aged 44, is the deputy head of the financial department of NGC. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in January 1985 and was appointed as the deputy head of the financial department of Nanjing High Speed Gear Factory in December 2000. He has become the deputy head of the financial department of NGC since its establishment in August 2001. Mr. Zhang graduated from Agricultural Economics and Trade Institute, Nanjing Agricultural University in 1990. Mr. Zhang is a qualified accountant by profession. He is one of the members of the group of controlling shareholders of the Company.

Mr. Wang Zhengbing, aged 36, is the deputy general manager of Nanjing High Speed. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1993. Mr. Wang has been employed by NGC since September 2001. He has been appointed as the deputy general manager of Nanjing High Speed since 2003. Mr. Wang took up two positions, namely the head of production planning department and the deputy general manager of Nanjing High Speed from July 2003 to December 2004, and has focused on his position as the deputy general manager of Nanjing High Speed since January 2005. Mr. Wang is

also a director Ninghongjian, a subsidiary of the Company, Mr. Wang graduated from Zhejiang University in 1993 and specialized in metallic materials and thermo processing. Mr. Wang is a senior engineer by profession.

Mr. Wang Zhengrong, aged 41, is the deputy general manager of Nanjing High Speed. He joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1988 and was appointed as head of technology department of Nanjing High Speed Gear Factory in December 2000. Mr. Wang has been employed by NGC since September 2001. In May 2004, Mr. Wang was appointed as the head of technology department of Nanjing High Speed. He has been appointed as the deputy general manager of Nanjing High Speed since July 2006. Mr. Wang is also a director of Ninghongjian, a subsidiary of the Company, Mr. Wang graduated from Chengdu University of Science and Technology in 1988 and specialized in machinery design and manufacture. Mr. Wang is a senior engineer by profession. He is also one of the Management Shareholders.

Mr. Xu Yong, aged 35, is the deputy head of the financial department of NGC. He is also the assistant to general manager as well as the head of financial department of Nanjing High Speed. Mr. Xu joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1994. He was appointed as the head of financial department of Nanjing High Speed in December 2003 and also as the assistant to general manager of Nanjing High Speed in January 2005. Mr. Xu has been the deputy head of the financial department of NGC since January 2007 in addition to his then position in Nanjing High Speed as the assistant to general manager as well as the head of financial department. Mr. Xu graduated from Nanjing Institute of Economics and specialized in accounting in 1994. He also obtained an MBA degree from Macau University of Science and Technology in August 2006. Mr. Xu is a qualified accountant by profession. He is also one of the Management Shareholders.

Mr. Zhou Zhijin, aged 35, is the deputy general manager of Nanjing High Speed. Mr. Zhou joined Nanjing High Speed Gear Factory (now known as NGID, the former controlling shareholder of NGC) in 1991. Mr. Zhou joined NGC in September 2001 as the deputy head of human resources department. He has been the deputy general manager of Nanjing High Speed since July 2006. Mr. Zhou graduated from Nanjing Institute of Technology in 1991 and pursued further studies in management from the School of Distance Learning of the Party School of the Central Committee of the Chinese Communist Party from 2002 to 2004.

PRINCIPAL SHAREHOLDERS

As at 7 May 2008, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

<u>Name</u>	<u>Nature of interests</u>	<u>Number of securities held⁽¹⁾</u>	<u>Approximate percentages to the equity</u>
Fortune Apex Limited ⁽²⁾	Beneficial owner	333,474,024	26.79%
Luckever Holdings Limited ⁽³⁾	Beneficial owner	159,747,700	12.83
Mr. Liu Xuezhong ⁽³⁾	Interest of a controlled corporation and interest of spouse	159,747,700	12.83
Ms. Li Yuelan ⁽³⁾	Interest of a controlled corporation and interest of spouse	159,747,700	12.83

- Notes: (1) All the securities held are in long positions.
- (2) Fortune Apex Limited owns 26.79% interest in the issued share capital of the Company. Messrs. Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang, Li Shengqiang, Liao Enrong, Jin Maoji, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Ligu (collectively, the “**Management Shareholders**”) together own 100% interest in the issued share capital of Fortune Apex Limited.
- (3) Luckever Holdings Limited owns 12.83% interest in the issued share capital of the Company. Mr. Liu Xuezhong and Ms. Li Yuelan own 60.87% and 39.13% interest in the issued share capital of Luckever Holdings Limited respectively. Ms. Li Yuelan is the spouse of Mr. Liu Xuezhong and therefore is deemed to be interested in the shares of the Company in which Mr. Liu Xuezhong is deemed to be interested for the purpose of the SFO and vice versa. Pursuant to the SFO, Mr. Liu Xuezhong and Ms. Li Yuelan are deemed to be interested in the 159,747,700 shares of the Company in which Luckever Holdings Limited is currently interested.

Save as disclosed above and so far as the Directors are aware of, as at 7 May 2008, there was no other person, other than the directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

DESCRIPTION OF THE SHARES

Set out below is certain information concerning the Shares and a summary of certain provisions of the Company's Articles of Association. Such a summary does not purport to be complete and is qualified in its entirety by reference to the full Articles of Association.

SUMMARY OF THE CONSTITUTION OF THE COMPANY

1. Memorandum of Association

The Memorandum of Association of the Company was adopted on 8 June 2007 and states, inter alia, that the liability of members of the Company is limited, that the objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the Companies Law or any other law of the Cayman Islands.

The Memorandum of Association is available for inspection at the offices of Charltons at 10th Floor, Hutchison House, 10 Harcourt Road, Hong Kong.

2. Articles of Association

The Articles of Association were adopted on 8 June 2007 and include provisions to the following effect:

2.1 *Classes of Shares*

The share capital of the Company consists of ordinary shares. The capital of the Company at the date of adoption of the Articles of Association is US\$30,000,000 divided into 30,000,000,000 shares of US\$0.01 each. The total number of Shares that can be issued upon conversion of the Bonds at the initial Conversion Price is 125,198,306.

2.2 *Directors*

2.2.1 *Power to allot and issue Shares*

Subject to the provisions of the Companies Law and the Memorandum and Articles of Association, the unissued shares in the Company (whether forming part of its original or any increased capital) shall be at the disposal of the directors of the Company (the “**Directors**”), who may offer, allot, grant options over or otherwise dispose of them to such persons, at such times and for such consideration, and upon such terms, as the Directors shall determine.

Subject to the provisions of the Articles of Association and to any direction that may be given by the Company in general meeting and without prejudice to any special rights conferred on the holders of any existing Shares or attaching to any class of Shares, any Share may be issued with or have attached thereto such preferred, deferred, qualified or other special rights or restrictions, whether in regard to dividend, voting, return of capital or otherwise, and to such persons at such time and for such consideration as the Directors may determine. Subject to the Companies Law (2007 Revision) of the Cayman Islands (the “**Companies Law**”) and to any special rights conferred on any shareholders or attaching to any class of Shares, any Share may, with the sanction of a special resolution, be issued on terms that it is, or at the option of the Company or the holder thereof, liable to be redeemed.

2.2.2 *Power to dispose of the assets of the Company or any subsidiary*

The management of the business of the Company shall be vested in the Directors who, in addition to the powers and authorities by the Articles of Association expressly conferred upon them, may exercise all such powers and do all such acts and things as may be exercised or done or approved by

the Company and are not by the Articles of Association or the Companies Law expressly directed or required to be exercised or done by the Company in general meeting, but subject nevertheless to the provisions of the Companies Law and of the Articles of Association and to any regulation from time to time made by the Company in general meeting not being inconsistent with such provisions or the Articles of Association, provided that no regulation so made shall invalidate any prior act of the Directors which would have been valid if such regulation had not been made.

2.2.3 Compensation or payment for loss of office

Payment to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must first be approved by the Company in general meeting.

2.2.4 Loans to Directors

There are provisions in the Articles of Association prohibiting the making of loans to Directors and associates which are equivalent to the restrictions imposed by the Hong Kong Companies Ordinance.

2.2.5 Financial assistance to purchase Shares

Subject to all applicable laws, the Company may give financial assistance to Directors and employees of the Company, its subsidiaries or any holding company or any subsidiary of such holding company in order that they may buy shares in the Company or any such subsidiary or holding company. Further, subject to all applicable laws, the Company may give financial assistance to a trustee for the acquisition of shares in the Company or shares in any such subsidiary or holding company to be held for the benefit of employees of the Company, its subsidiaries, any holding company of the Company or any subsidiary of any such holding company (including salaried Directors).

2.2.6 Disclosure of interest in contracts with the Company or any of its subsidiaries

No Director or proposed Director shall be disqualified by his office from contracting with the Company either as vendor, purchaser or otherwise nor shall any such contract or any contract or arrangement entered into by or on behalf of the Company with any person, company or partnership of or in which any Director shall be a member or otherwise interested be capable on that account of being avoided, nor shall any Director so contracting or being any member or so interested be liable to account to the Company for any profit so realised by any such contract or arrangement by reason only of such Director holding that office or the fiduciary relationship thereby established, provided that such Director shall, if his interest in such contract or arrangement is material, declare the nature of his interest at the earliest meeting of the board of Directors at which it is practicable for him to do so, either specifically or by way of a general notice stating that, by reason of the facts specified in the notice, he is to be regarded as interested in any contracts of a specified description which may be made by the Company.

A Director shall not be entitled to vote on (nor shall he be counted in the quorum in relation to) any resolution of the Directors in respect of any contract or arrangement or any other proposal in which the Director or any of his associates has any material interest, and if he shall do so his vote shall not be counted (nor is he to be counted in the quorum for the resolution), but this prohibition shall not apply to any of the following matters, namely:

the giving to such Director or any of his associates of any security or indemnity in respect of money lent or obligations incurred by him or any of them at the request of or for the benefit of the Company or any of its subsidiaries;

the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or any of his associates has himself/ themselves assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

any proposal concerning an offer of Shares, debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase where the Director or any of his associates is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

any proposal concerning any other company in which the Director or any of his associates is/are interested only, whether directly or indirectly, as an officer, executive or shareholder or in which the Director or any of his associates is/are beneficially interested in shares of that company, provided that the Director and any of his associates, are not in aggregate beneficially interested in 5%, or more of the issued shares of any class of such company (or of any third company through which his interest or that of any of his associates is derived) or of the voting rights;

any proposal or arrangement concerning the benefit of employees of the Company or any of its subsidiaries including:

- (i) the adoption, modification or operation of any employees' share scheme or any share incentive scheme or share option scheme under which the Director or any of his associates may benefit; or
- (ii) the adoption, modification or operation of a pension or provident fund or retirement, death or disability benefits scheme which relates both to Directors, their associates and employees of the Company or any of its subsidiaries and does not provide in respect of any Director or any of his associates as such any privilege or advantage not generally accorded to the class of persons to which such scheme or fund relates;

any contract or arrangement in which the Director or any of his associates is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his interest in shares or debentures or other securities of the Company.

2.2.7 Remuneration

The Directors shall be entitled to receive by way of remuneration for their services such sum as shall from time to time be determined by the Directors, or the Company in general meeting, as the case may be, such sum (unless otherwise directed by the resolution by which it is determined) to be divided amongst the Directors in such proportions and in such manner as they may agree, or failing agreement, equally, except that in such event any Director holding office for less than the whole of the relevant period in respect of which the remuneration is paid shall only rank in such division in proportion to the time during such period for which he has held office. Such remuneration shall be in addition to any other remuneration to which a Director who holds any salaried employment or office in the Company may be entitled by reason of such employment or office.

The Directors shall also be entitled to be paid all expenses, including travel expenses, reasonably incurred by them in or about the performance of their duties as Directors including their expenses of travelling to and from board meetings, committee meetings or general meetings or otherwise incurred whilst engaged on the business of the Company or in the discharge of their duties as Directors.

The Directors may grant special remuneration to any Director who shall perform any special or extra services at the request of the Company. Such special remuneration may be made payable to such Director in addition to or in substitution for his ordinary remuneration as a Director, and may be made payable by way of salary, commission or participation in profits or otherwise as may be agreed.

The remuneration of an executive Director or a Director appointed to any other office in the management of the Company shall from time to time be fixed by the Directors and may be by way of salary, commission or participation in profits or otherwise or by all or any of those modes and with such other benefits (including share option and/or pension and/or gratuity and/or other benefits on retirement) and allowances as the Directors may from time to time decide. Such remuneration shall be in addition to such remuneration as the recipient may be entitled to receive as a Director.

2.2.8 Retirement, appointment and removal

The Directors shall have power at any time and from time to time to appoint any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next annual general meeting of the Company and shall then be eligible for re-election at that meeting.

The Company may by ordinary resolution remove any Director (including a Managing Director or other executive Director) before the expiration of his period of office notwithstanding anything in the Articles of Association or in any agreement between the Company and such Director (but without prejudice to any claim for compensation or damages payable to him in respect of the termination of his appointment as Director or of any other appointment or office as a result of the termination of his appointment as Director). The Company may by ordinary resolution appoint another person in his place. Any Director so appointed shall hold office during such time only as the Director in whose place he is appointed would have held the same if he had not been removed. The Company may also by ordinary resolution elect any person to be a Director, either to fill a casual vacancy or as an addition to the existing Directors. Any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. No person shall, unless recommended by the Directors, be eligible for election to the office of Director at any general meeting unless, during the period, which shall be at least seven days, commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than seven days prior to the date of such meeting, there has been given to the Secretary of the Company notice in writing by a member of the Company (not being the person to be proposed) entitled to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also notice in writing signed by the person to be proposed of his willingness to be elected.

There is no shareholding qualification for Directors nor is there any specified age limit for Directors.

The office of a Director shall be vacated:

- (1) if he resigns his office by notice in writing to the Company at its registered office or its principal office in Hong Kong;

if an order is made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs and the Directors resolve that his office be vacated;

if, without leave, he is absent from meetings of the Directors (unless an alternate Director appointed by him attends) for 12 consecutive months, and the Directors resolve that his office be vacated;
- (2) if he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors generally;
- (3) if he ceases to be or is prohibited from being a Director by law or by virtue of any provision in the Articles of Association;

- (4) if he is removed from office by notice in writing served upon him signed by not less than three-fourths in number (or, if that is not a round number, the nearest lower round number) of the Directors (including himself) for the time being then in office; or
- (5) if he shall be removed from office by an ordinary resolution of the members of the Company under the Articles of Association.

At every annual general meeting of the Company one-third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest to, but not less than, one-third, shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. A retiring Director shall retain office until the close of the meeting at which he retires and shall be eligible for re-election thereat. The Company at any annual general meeting at which any Directors retire may fill the vacated office by electing a like number of persons to be Directors.

2.2.9 Borrowing powers

The Directors may from time to time at their discretion exercise all the powers of the Company to raise or borrow or to secure the payment of any sum or sums of money for the purposes of the Company and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof.

The rights of the Directors to exercise these powers may only be varied by a special resolution.

2.2.10 Proceedings of the Board

The Directors may meet together for the despatch of business, adjourn and otherwise regulate their meetings and proceedings as they think fit in any part of the world. Subject to paragraph 2.2.8(f) above, questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have a second or casting vote.

- 2.3** A resolution in writing signed by each and every one of the Directors (or their respective alternates) shall be as valid and effectual as if it had been passed at a meeting of the Board duly convened and held and may consist of several documents in like form each signed by one or more of the Directors or alternate Directors.

2.4 *Alteration to constitutional documents*

No alteration or amendment to the Memorandum or Articles of Association may be made except by special resolution.

2.5 *Variation of rights of existing shares or classes of Shares*

If at any time the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class of Shares for the time being issued (unless otherwise provided for in the terms of issue of the shares of that class) may, subject to the provisions of the Companies Law, be varied or abrogated either with the consent in writing of the holders of not less than three-fourths in nominal value of the issued Shares of that class or with the sanction of a special resolution passed at a separate meeting of the holders of the Shares of that class. To every such separate meeting all the provisions of the Articles of Association relating to general meetings shall *mutatis mutandis* apply, but so that the quorum for the purposes of any such separate meeting and of any adjournment thereof shall be a person or persons together holding (or representing by proxy or duly authorised representative) at the date of the relevant meeting not less than one-third in nominal value of the issued Shares of that class, and that any holder of Shares of the class present in person (or in the case of corporation, by its duly authorised representative) or by proxy may demand a poll.

The special rights conferred upon the holders of Shares of any class shall not, unless otherwise expressly provided in the rights attaching to or the terms of issue of such shares, be deemed to be varied by the creation or issue of further Shares ranking *pari passu* therewith.

2.6 *Alteration of Capital*

The Company in general meeting may, from time to time, whether or not all the Shares for the time being authorised shall have been issued and whether or not all the Shares for the time being issued shall have been fully paid up, by ordinary resolution, increase its share capital by the creation of new Shares, such new capital to be of such amount and to be divided into Shares of such respective amounts as the resolution shall prescribe.

The Company may from time to time by ordinary resolution:

- 2.6.1 consolidate and divide all or any of its share capital into shares of larger amount than its existing Shares. On any consolidation of fully paid shares and division into Shares of larger amount, the Directors may settle any difficulty which may arise as they think expedient and in particular (but without prejudice to the generality of the foregoing) may as between the holders of Shares to be consolidated determine which particular shares are to be consolidated into each consolidated share, and if it shall happen that any person shall become entitled to fractions of a consolidated share or shares, such fractions may be sold by some person appointed by the Directors for that purpose and the person so appointed may transfer the shares so sold to the purchaser thereof and the validity of such transfer shall not be questioned, and so that the net proceeds of such sale (after deduction of the expenses of such sale) may either be distributed among the persons who would otherwise be entitled to a fraction or fractions of a consolidated share or shares rateably in accordance with their rights and interests or may be paid to the Company for the Company's benefit;
- 2.6.2 cancel any Shares which at the date of the passing of the resolution have not been taken or agreed to be taken by any person, and diminish the amount of its share capital by the amount of the Shares so cancelled subject to the provisions of the Companies Law; and
- 2.6.3 sub-divide its Shares of any of them into shares of smaller amount than is fixed by the Memorandum of Association, subject nevertheless to the provisions of the Companies Law, and so that the resolution whereby any Share is sub-divided may determine that, as between the holders of the shares resulting from such sub-division, one or more of the shares may have any such preferred or other special rights, over, or may have such deferred rights or be subject to any such restrictions as compared with the others as the company has power to attach to unissued or new shares.

The Company may by special resolution reduce its share capital or any capital redemption reserve in any manner authorised and subject to any conditions prescribed by the Companies Law.

2.7 *Special resolution—majority required*

A “**special resolution**” is defined in the Articles of Association to have the meaning ascribed thereto in the Companies Law, for which purpose, the requisite majority shall be not less than three-fourths of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given and includes a special resolution approved in writing by all of the members of the Company entitled to vote at a general meeting of the Company in one or more instruments each signed by one or more of such members, and the effective date of the special resolution so adopted shall be the date on which the instrument or the last of such instruments (if more than one) is executed.

In contrast, an “**ordinary resolution**” is defined in the Articles of Association to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting held in accordance with the Articles of Association and includes an ordinary resolution approved in writing by all the members of the Company aforesaid.

2.8 Voting rights (generally, on a poll and right to demand a poll)

Subject to any special rights, privileges or restrictions as to voting for the time being attached to any class or classes of Shares, at any general meeting on a show of hands every member of the Company who is present in person (or, in the case of a member being a corporation, by its duly authorised representative) shall have one vote, and on a poll every member present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy shall have one vote for each share registered in his name in the register of members of the Company.

Where any member of the Company is, under the Listing Rules, required to abstain from voting on any particular resolution or is restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such member in contravention of such requirement or restriction shall not be counted.

In the case of joint registered holders of any Share, any one of such persons may vote at any meeting, either personally or by proxy, in respect of such Share as if he were solely entitled thereto; but if more than one of such joint holders be present at any meeting personally or by proxy, that one of the said persons so present being the most or, as the case may be, the more senior shall alone be entitled to vote in respect of the relevant joint holding and, for this purpose, seniority shall be determined by reference to the order in which the names of the joint holders stand on the register in respect of the relevant joint holding.

A member of the Company in respect of whom an order has been made by any competent court or official on the grounds that he is or may be suffering from mental disorder or is otherwise incapable of managing his affairs may vote, whether on a show of hands or on a poll, by any person authorised in such circumstances to do so and such person may vote on a poll by proxy.

Save as expressly provided in the Articles of Association or as otherwise determined by the Directors, no person other than a member of the Company duly registered and who shall have paid all sums for the time being due from him payable to the Company in respect of his shares shall be entitled to be present or to vote (save as proxy for another member of the Company), or to be counted in a quorum, either personally or by proxy at any general meeting.

At any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded by:

- 2.8.1 the chairman of the meeting; or
- 2.8.2 at least five members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote; or
- 2.8.3 any member or members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members of the Company having the right to attend and vote at the meetings; or

2.8.4 any member or members of the Company present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

On a poll votes may be given either personally or by proxy.

If a recognised clearing house (or its nominee) is a member of the Company it may authorise such person or persons as it thinks fit to act as its proxy(ies) or representative(s) at any general meeting of the Company or at any general meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of Shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be entitled to exercise the same rights and powers on behalf of the recognised clearing house (or its nominee) which he represents as that recognised clearing house (or its nominee) could exercise if it were an individual member of the Company holding the number and class of shares specified in such authorisation.

2.9 Annual general meetings

The Company shall in each year hold a general meeting as its annual general meeting in addition to any other general meeting in that year and shall specify the meeting as such in the notice calling it; and not more than 15 months (or such longer period as the Stock Exchange may authorise) shall elapse between the date of one annual general meeting of the Company and that of the next.

2.10 Accounts and audit

The Directors shall cause to be kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to show and explain its transactions and otherwise in accordance with the Companies Law.

The Directors shall from time to time determine whether, and to what extent, and at what times and places and under what conditions or regulations, the accounts and books of the Company, or any of them, shall be open to the inspection of members of the Company (other than officers of the Company) and no such member shall have any right of inspecting any accounts or books or documents of the Company except as conferred by the Companies Law or any other relevant law or regulation or as authorised by the Directors or by the Company in general meeting.

The Directors shall, commencing with the first annual general meeting, cause to be prepared and to be laid before the members of the Company at every annual general meeting a profit and loss account for the period, in the case of the first account, since the incorporation of the Company and, in any other case, since the preceding account, together with a balance sheet as at the date at which the profit and loss account is made up and a Director's report with respect to the profit or loss of the Company for the period covered by the profit and loss account and the state of the Company's affairs as at the end of such period, an auditor's report on such accounts and such other reports and accounts as may be required by law. Copies of those documents to be laid before the members of the Company at an annual general meeting shall not less than 21 days before the date of the meeting, be sent in the manner in which notices may be served by the Company as provided in the Articles of Association to every member of the Company and every holder of debentures of the Company provided that the Company shall not be required to send copies of those documents to any person of whose address the Company is not aware or to more than one of the joint holders of any shares or debentures.

The Company shall at any annual general meeting appoint an auditor or auditors of the Company who shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company at the annual general meeting at which they are appointed provided that in respect of any particular year the Company in general meeting may delegate the fixing of such remuneration to the Directors.

2.11 Notice of meetings and business to be conducted thereat

An annual general meeting and any extraordinary general meeting called for the passing of a special resolution shall be called by not less than 21 days' notice in writing and any other extraordinary general meeting shall be called by not less than 14 days' notice in writing. The notice shall be inclusive of the day on which it is served or deemed to be served and of the day for which it is given, and shall specify the time, place and agenda of the meeting, particulars of the resolutions to be considered at the meeting and, in the case of special business, the general nature of that business. The notice convening an annual general meeting shall specify the meeting as such, and the notice convening a meeting to pass a special resolution shall specify the intention to propose the resolution as a special resolution. Notice of every general meeting shall be given to the auditors and all members of the Company (other than those who, under the provisions of the Articles of Association or the terms of issue of the Shares they hold, are not entitled to receive such notice from the Company).

Notwithstanding that a meeting of the Company is called by shorter notice than that mentioned above, it shall be deemed to have been duly called if it is so agreed:

- (a) in the case of a meeting called as an annual general meeting, by all members of the Company entitled to attend and vote thereat or their proxies; and
- (b) in the case of any other meeting, by a majority in number of the members having a right to attend and vote at the meeting, being a majority together holding not less than 95% in nominal value of the Shares giving that right.

All business shall be deemed special that is transacted at an extraordinary general meeting and also all business shall be deemed special that is transacted at an annual general meeting with the exception of the following, which shall be deemed ordinary business:

- (1) the declaration and sanctioning of dividends;
- (2) the consideration and adoption of the accounts and balance sheets and the reports of the Directors and the auditors and other documents required to be annexed to the balance sheet;
- (3) the election of Directors in place of those retiring;
- (4) the appointment of auditors;
- (5) the fixing of, or the determining of the method of fixing of, the remuneration of the Directors and of the auditors;
- (6) the granting of any mandate or authority to the Directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than 20%, (or such other percentage as may from time to time be specified in the Listing Rules of the Hong Kong Stock Exchange (the "**Listing Rules**")) in nominal value of its then existing issued share capital and the number of any securities repurchased pursuant to sub-paragraph (7) below; and
- (7) the granting of any mandate or authority to the Directors to repurchase securities of the Company.

2.12 Transfer of Shares

Transfers of Shares may be effected by an instrument of transfer in the usual common form or in such other form as the Directors may approve which is consistent with the standard form of transfer as prescribed by the Hong Kong Stock Exchange.

The instrument of transfer shall be executed by or on behalf of the transferor and, unless the Directors otherwise determine, the transferee, and the transferor shall be deemed to remain the holder of the Share until the name of the transferee is entered in the register of members of the Company in respect thereof. All instruments of transfer shall be retained by the Company.

The Directors may refuse to register any transfer of any Share which is not fully paid up or on which the Company has a lien. The Directors may also decline to register any transfer of any Shares unless:

- (a) the instrument of transfer is lodged with the Company accompanied by the certificate for the Shares to which it relates (which shall upon the registration of the transfer be cancelled) and such other evidence as the Directors may reasonably require to show the right of the transferor to make the transfer;
- (b) the instrument of transfer is in respect of only one class of Shares;
- (c) the instrument of transfer is properly stamped (in circumstances where stamping is required);
- (d) in the case of a transfer to joint holders, the number of joint holders to whom the Share is to be transferred does not exceed four;
- (e) the Shares concerned are free of any lien in favour of the Company; and
- (f) a fee of such maximum as the Stock Exchange may from time to time determine to be payable (or such lesser sum as the Directors may from time to time require) is paid to the Company in respect thereof.

If the Directors refuse to register a transfer of any Share they shall, within two months after the date on which the instrument of transfer was lodged with the Company, send to each of the transferor and the transferee notice of such refusal.

The registration of transfers may, on 14 days' notice being given by advertisement in the newspaper or, subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be suspended and the register of members of the Company closed at such times for such periods as the Directors may from time to time determine, provided that the registration of transfers shall not be suspended or the register closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

2.13 Power of the Company to purchase its own Shares

The Company is empowered by the Companies Law and the Articles of Association to purchase its own Shares subject to certain restrictions and the Directors may only exercise this power on behalf of the Company subject to the authority of its members in general meeting as to the manner in which they do so and to any applicable requirements imposed from time to time by the Stock Exchange and the Securities and Futures Commission of Hong Kong.

2.14 Power of any subsidiary of the Company to own Shares

There are no provisions in the Articles of Association relating to the ownership of Shares by a subsidiary.

2.15 Dividends and other methods of distributions

Subject to the Companies Law and Articles of Association, the Company in general meeting may declare dividends in any currency but no dividends shall exceed the amount recommended by the Directors. No dividend may be declared or paid other than out of profits and reserves of the Company lawfully available for distribution, including share premium.

Unless and to the extent that the rights attached to any Shares or the terms of issue thereof otherwise provide, all dividends shall (as regards any shares not fully paid throughout the period in respect of which the dividend is paid) be apportioned and paid pro rata according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. For these purposes no amount paid up on a Share in advance of calls shall be treated as paid up on the Share.

The Directors may from time to time pay to the members of the Company such interim dividends as appear to the Directors to be justified by the profits of the Company. The Directors may also pay half-yearly or at other intervals to be selected by them at a fixed rate if they are of the opinion that the profits available for distribution justify the payment.

The Directors may retain any dividends or other moneys payable on or in respect of a share upon which the Company has a lien, and may apply the same in or towards satisfaction of the debts, liabilities or engagements in respect of which the lien exists. The Directors may also deduct from any dividend or other monies payable to any member of the Company all sums of money (if any) presently payable by him to the Company on account of calls, instalments or otherwise.

No dividend shall carry interest against the Company.

Whenever the Directors or the Company in general meeting have resolved that a dividend be paid or declared on the share capital of the Company, the Directors may further resolve: (a) that such dividend be satisfied wholly or in part in the form of an allotment of Shares credited as fully paid up on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee, provided that the members of the Company entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment; or (b) that the members of the Company entitled to such dividend will be entitled to elect to receive an allotment of Shares credited as fully paid up in lieu of the whole or such part of the dividend as the Directors may think fit on the basis that the Shares so allotted are to be of the same class as the class already held by the allottee. The Company may upon the recommendation of the Directors by ordinary resolution resolve in respect of any one particular dividend of the Company that notwithstanding the foregoing a dividend may be satisfied wholly in the form of an allotment of Shares credited as fully paid without offering any right to members of the Company to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to a holder of Shares may be paid by cheque or warrant sent through the post addressed to the registered address of the member of the Company entitled, or in the case of joint holders, to the registered address of the person whose name stands first in the register of members of the Company in respect of the joint holding to such person and to such address as the holder or joint holders may in writing direct. Every cheque or warrant so sent shall be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register of members of the Company in respect of such shares, and shall be sent at his or their risk and the payment of any such cheque or warrant by the bank on which it is drawn shall operate as a good discharge to the Company in respect of the dividend and/or bonus represented thereby, notwithstanding that it may subsequently appear that the same has been stolen or that any endorsement thereon has been forged. The Company may cease sending such cheques for dividend entitlements or dividend warrants by post if such cheques or warrants have been left uncashed on two consecutive occasions. However, the Company may exercise its power to cease sending cheques for dividend entitlements or dividend warrants after the first

occasion on which such a cheque or warrant is returned undelivered. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the Shares held by such joint holders.

Any dividend unclaimed for six years from the date of declaration of such dividend may be forfeited by the Directors and shall revert to the Company.

The Directors may, with the sanction of the members of the Company in general meeting, direct that any dividend be satisfied wholly or in part by the distribution of specific assets of any kind, and in particular of paid up shares, debentures or warrants to subscribe securities of any other company, and where any difficulty arises in regard to such distribution the Directors may settle it as they think expedient, and in particular may disregard fractional entitlements, round the same up or down or provide that the same shall accrue to the benefit of the Company, and may fix the value for distribution of such specific assets and may determine that cash payments shall be made to any members of the Company upon the footing of the value so fixed in order to adjust the rights of all parties, and may vest any such specific assets in trustees as may seem expedient to the Directors.

2.16 Proxies

Any member of the Company entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person who must be an individual as his proxy to attend and vote instead of him and a proxy so appointed shall have the same right as the member to speak at the meeting. A proxy need not be a member of the Company.

Instruments of proxy shall be in common form or in such other form as the Directors may from time to time approve provided that it shall enable a member to instruct his proxy to vote in favour of or against (or in default of instructions or in the event of conflicting instructions, to exercise his discretion in respect of) each resolution to be proposed at the meeting to which the form of proxy relates. The instrument of proxy shall be deemed to confer authority to demand or join in demanding a poll and to vote on any amendment of a resolution put to the meeting for which it is given as the proxy thinks fit. The instrument of proxy shall, unless the contrary is stated therein, be valid as well for any adjournment of the meeting as for the meeting to which it relates provided that the meeting was originally held within 12 months from such date.

The instrument appointing a proxy shall be in writing under the hand of the appointor or his attorney authorised in writing or if the appointor is a corporation either under its seal or under the hand of an officer, attorney or other person duly authorised to sign the same.

The instrument appointing a proxy and (if required by the Directors) the power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of such power or authority, shall be delivered at the registered office of the Company (or at such other place as may be specified in the notice convening the meeting or in any notice of any adjournment or, in either case, in any document sent therewith) not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the instrument proposes to vote or, in the case of a poll taken subsequently to the date of a meeting or adjourned meeting, not less than 48 hours before the time appointed for the taking of the poll and in default the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date named in it as the date of its execution. Delivery of any instrument appointing a proxy shall not preclude a member of the Company from attending and voting in person at the meeting or poll concerned and, in such event, the instrument appointing a proxy shall be deemed to be revoked.

2.17 Calls on Shares and forfeiture of Shares

The Directors may from time to time make calls upon the members of the Company in respect of any moneys unpaid on their Shares (whether on account of the nominal amount of the shares or by way of

premium) and not by the conditions of allotment thereof made payable at fixed times and each member of the Company shall (subject to the Company serving upon him at least 14 days' notice specifying the time and place of payment) pay to the Company at the time and place so specified the amount called on his shares. A call may be revoked or postponed as the Directors may determine. A person upon whom a call is made shall remain liable on such call notwithstanding the subsequent transfer of the shares in respect of which the call was made.

A call may be made payable either in one sum or by instalments and shall be deemed to have been made at the time when the resolution of the Directors authorising the call was passed. The joint holders of a Share shall be jointly and severally liable to pay all calls and instalments due in respect of such Share or other moneys due in respect thereof.

If a sum called in respect of a Share shall not be paid before or on the day appointed for payment thereof, the person from whom the sum is due shall pay interest on the sum from the day appointed for payment thereof to the time of actual payment at such rate, not exceeding 15%, per annum, as the Directors may determine, but the Directors shall be at liberty to waive payment of such interest wholly or in part.

If any call or instalment of a call remains unpaid on any Share after the day appointed for payment thereof, the Directors may at any time during such time as any part thereof remains unpaid serve a notice on the holder of such shares requiring payment of so much of the call or instalment as is unpaid together with any interest which may be accrued and which may still accrue up to the date of actual payment.

The notice shall name a further day (not being less than 14 days from the date of service of the notice) on or before which, and the place where, the payment required by the notice is to be made, and shall state that in the event of non-payment on or before the time and at the place appointed, the Shares in respect of which such call was made or instalment is unpaid will be liable to be forfeited.

If the requirements of such notice are not complied with, any Share in respect of which such notice has been given may at any time thereafter, before payment of all calls or instalments and interest due in respect thereof has been made, be forfeited by a resolution of the Directors to that effect. Such forfeiture shall include all dividends and bonuses declared in respect of the forfeited shares and not actually paid before the forfeiture. A forfeited Share shall be deemed to be the property of the Company and may be sold, re-allotted or otherwise disposed of.

A person whose Shares have been forfeited shall cease to be a member of the Company in respect of the forfeited Shares but shall, notwithstanding the forfeiture, remain liable to pay to the Company all moneys which at the date of forfeiture were payable by him to the Company in respect of the Shares, together with (if the Directors shall in their discretion so require) interest thereon at such rate not exceeding 15%, per annum as the Directors may prescribe from the date of forfeiture until payment, and the Directors may enforce payment thereof without being under any obligation to make any allowance for the value of the Shares forfeited, at the date of forfeiture.

2.18 Inspection of register of members

The register of members of the Company shall be kept in such manner as to show at all times the members of the Company for the time being and the shares respectively held by them. The register may, on 14 days' notice being given by advertisement in the newspapers, or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, be closed at such times and for such periods as the Directors may from time to time determine either generally or in respect of any class of shares, provided that the register shall not be closed for more than 30 days in any year (or such longer period as the members of the Company may by ordinary resolution determine provided that such period shall not be extended beyond 60 days in any year).

Any register of members (including the branch register) kept in Hong Kong shall during normal business hours (subject to such reasonable restrictions as the Directors may impose) be open to inspection by any member of the Company without charge and by any other person on payment of such fee not exceeding HK\$2.50 (or such higher amount as may from time to time be permitted under the Listing Rules) as the Directors may determine for each inspection.

2.19 Quorum for meetings and separate class meetings

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment, choice or election of a chairman which shall not be treated as part of the business of the meeting.

Two members of the Company present in person or by proxy shall be a quorum provided always that if the Company has only one member of record the quorum shall be that one member present in person or by proxy.

A corporation being a member of the Company shall be deemed for the purpose of the Articles of Association to be present in person if represented by its duly authorised representative being the person appointed by resolution of the directors or other governing body of such corporation or by power of attorney to act as its representative at the relevant general meeting of the Company or at any relevant general meeting of any class of members of the Company.

2.20 Rights of minorities in relation to fraud or oppression

There are no provisions in the Articles of Association concerning the rights of minority shareholders in relation to fraud or oppression.

2.21 Procedure on liquidation

If the Company shall be wound up, and the assets available for distribution amongst the members of the Company as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the members of the Company in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively. And if in a winding up the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed amongst the members of the Company in proportion to the capital paid up at the commencement of the winding up on the shares held by them respectively. The foregoing is without prejudice to the rights of the holders of Shares issued upon special terms and conditions.

If the Company shall be wound up, the liquidator may with the sanction of a special resolution of the Company and any other sanction required by the Companies Law, divide amongst the members of the Company in specie or kind the whole or any part of the assets of the Company (whether they shall consist of property of the same kind or not) and may, for such purpose, set such value as he deems fair upon any property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members of the Company. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the members of the Company as the liquidator, with the like sanction and subject to the Companies Law, shall think fit, but so that no member of the Company shall be compelled to accept any assets, shares or other securities in respect of which there is a liability.

2.22 Untraceable members

The Company shall be entitled to sell any Shares of a member of the Company or the shares to which a person is entitled by virtue of transmission on death or bankruptcy or operation of law if: (i) all cheques or

warrants, not being less than three in number, for any sums payable in cash to the holder of such shares have remained uncashed for a period of 12 years; (ii) the Company has not during that time or before the expiry of the three month period referred to in (iv) below received any indication of the whereabouts or existence of the member; (iii) during the 12 year period, at least three dividends in respect of the Shares in question have become payable and no dividend during that period has been claimed by the member; and (iv) upon expiry of the 12 year period, the Company has caused an advertisement to be published in the newspapers or subject to the Listing Rules, by electronic communication in the manner in which notices may be served by the Company by electronic means as provided in the Articles of Association, giving notice of its intention to sell such shares and a period of three months has elapsed since such advertisement and the Stock Exchange has been notified of such intention. The net proceeds of any such sale shall belong to the Company and upon receipt by the Company of such net proceeds it shall become indebted to the former member for an amount equal to such net proceeds.

2.23 Every certificate for shares or debentures or representing any other form of security of the Company shall be issued under the seal of the Company, which shall only be affixed with the authority of the Board.

SUMMARY OF THE COMPANIES LAW AND TAXATION

1. Introduction

The Companies Law is derived, to a large extent, from the older Companies Acts of England, although there are significant differences between the Companies Law and the current Companies Act of England. Set out below is a summary of certain provisions of the Companies Law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of corporate law and taxation which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar.

2. Incorporation

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 under the Companies Law. As such, its operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the size of its authorised share capital.

3. Share capital

The Companies Law permits a company to issue ordinary shares, preference shares, redeemable shares or any combination thereof.

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premia on those shares shall be transferred to an account called the “**share premium account**”. At the option of a company, these provisions may not apply to premia on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium. The Companies Law provides that the share premium account may be applied by a company, subject to the provisions, if any, of its memorandum and articles of association, in such manner as the company may from time to time determine including, but without limitation:

- (a) paying distributions or dividends to members;
- (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares;
- (c) in the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law);

- (d) writing-off the preliminary expenses of the company;
- (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company; and
- (f) providing for the premium payable on redemption or purchase of any shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

Subject to the detailed provisions of the Companies Law, a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner of purchase, a company cannot purchase any of its own shares unless the manner of purchase has first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any member of the company holding shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company for the purchase of, or subscription for, its own or its holding company's shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and to act in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm's-length basis.

4. Dividends and distributions

With the exception of section 34 of the Companies Law, there are no statutory provisions relating to the payment of dividends. Based upon English case law which is likely to be persuasive in the Cayman Islands in this area, dividends may be paid only out of profits. In addition, section 34 of the Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account (see 3 above for further details).

5. Shareholders' suits

The Cayman Islands courts can be expected to follow English case law precedents. The rule in *Foss v. Earbottle* (and the exceptions thereto which permit a minority shareholder to commence a class action against or derivative actions in the name of the company to challenge (a) an act which is *ultra vires* the company or illegal, (b) an act which constitutes a fraud against the minority where the wrongdoers are themselves in control of the company, and (c) an action which requires a resolution with a qualified (or special) majority which has not been obtained) has been applied and followed by the courts in the Cayman Islands.

6. Protection of minorities

In the case of a company (not being a bank) having a share capital divided into shares, the Grand Court of the Cayman Islands may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Grand Court shall direct.

Any shareholder of a company may petition the Grand Court of the Cayman Islands which may make a winding up order if the court is of the opinion that it is just and equitable that the company should be wound up.

Claims against a company by its shareholders must, as a general rule, be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

The English common law rule that the majority will not be permitted to commit a fraud on the minority has been applied and followed by the courts of the Cayman Islands.

7. Disposal of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of assets of a company. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the company.

8. Accounting and auditing requirements

The Companies Law requires that a company shall cause to be kept proper books of account with respect to:

- (a) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place;
- (b) all sales and purchases of goods by the company; and
- (c) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

9. Register of members

An exempted company may, subject to the provisions of its articles of association, maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as its directors may, from time to time, think fit. There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies in the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection.

10. Inspection of books and records

Members of a company will have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the company. They will, however, have such rights as may be set out in the company's articles of association.

11. Special resolutions

The Companies Law provides that a resolution is a special resolution when it has been passed by a majority of not less than two-thirds (or such greater number as may be specified in the articles of association of the company) of such members as, being entitled to do so, vote in person or, where proxies are allowed, by proxy at a general meeting of which notice specifying the intention to propose the resolution as a special resolution has been duly given. Written resolutions signed by all the members entitled to vote for the time being of the company may take effect as special resolutions if this is authorised by the articles of association of the company.

12. Subsidiary owning shares in parent

The Companies Law does not prohibit a Cayman Islands company acquiring and holding shares in its parent company provided its objects so permit. The directors of any subsidiary making such acquisition must discharge their duties of care and to act in good faith, for a proper purpose and in the interests of the subsidiary.

13. Reconstructions

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing 75%, in value of shareholders or creditors, depending on the circumstances, as are present at a meeting called for such purpose and thereafter sanctioned by the Grand Court of the Cayman Islands. Whilst a dissenting shareholder would have the right to express to the Grand Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Grand Court of the Cayman Islands is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management and if the transaction were approved and consummated the dissenting shareholder would have no rights comparable to the appraisal rights (i.e. the right to receive payment in cash for the judicially determined value of his shares) ordinarily available, for example, to dissenting shareholders of United States corporations.

14. Take-overs

Where an offer is made by a company for the shares of another company and, within four months of the offer, the holders of not less than 90%, of the shares which are the subject of the offer accept, the offeror may at any time within two months after the expiration of the said four months, by notice require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Grand Court of the Cayman Islands within one month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Grand Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

15. Indemnification

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Cayman Islands courts to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

16. Liquidation

A company is placed in liquidation either by an order of the court or by a special resolution (or, in certain circumstances, an ordinary resolution) of its members. A liquidator is appointed whose duties are to collect the assets of the company (including the amount (if any) due from the contributories (shareholders)), settle the list of creditors and discharge the company's liability to them, rateably if insufficient assets exist to discharge the liabilities in full, and to settle the list of contributories and divide the surplus assets (if any) amongst them in accordance with the rights attaching to the shares.

17. Stamp duty on transfers

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

18. Taxation

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are not party to any double tax treaties.

19. Exchange control

There are no exchange control regulations or currency restrictions in the Cayman Islands.

MARKET PRICE INFORMATION

The Shares have been listed on the Hong Kong Stock Exchange since 4 July 2007. The table below sets forth the closing prices and the quarterly trading volume of the Shares on the Hong Kong Stock Exchange for the periods indicated:

	<u>Closing Share Price</u>			<u>Total Trading Volume of Shares</u> (‘000)
	<u>High</u>	<u>Low</u> (HK\$)	<u>End of Period</u>	
2007				
Third quarter (from 4 July 2007)	15.78	10.16	14.06	830,265
Fourth quarter	23.60	15.14	20.80	308,942
2008				
First quarter	20.10	9.87	11.34	412,092
Second quarter (up to 7 May 2008)	14.58	10.96	13.98	115,818

Source: Bloomberg

EXCHANGE RATES

On 21 July 2005, the PBOC announced changes to the Renminbi exchange rate regime. From that date onwards, the PRC moved into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies and the Renminbi is no longer pegged specifically to US dollars. The current exchange rate regime will not constitute a strict peg to the basket of currencies but, instead, the Renminbi is allowed to fluctuate within a narrow +/-0.3% range around a central parity rate—defined as the previous day’s closing RMB/US dollar rate. The reference basket will be used as a guide to whether the RMB/US\$ rate should rise or fall. At 7:00 p.m. on 21 July 2005, the PBOC announced an initial appreciation of the Renminbi by 2% against the US dollar.

The following table sets forth, for each of the years indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in RMB per US dollar:

Period	Noon Buying Rate			
	Low	Average	High	Period End
	(RMB per US\$)			
2004				
First quarter	8.2767	8.2771	8.2774	8.2770
Second quarter	8.2766	8.2769	8.2773	8.2766
Third quarter	8.2766	8.2767	8.2770	8.2766
Fourth quarter	8.2764	8.2765	8.2768	8.2765
2005				
First quarter	8.2765	8.2765	8.2765	8.2765
Second quarter	8.2765	8.2765	8.2765	8.2765
Third quarter	8.0871	8.1374	8.2765	8.0920
Fourth quarter	8.0702	8.0829	8.0924	8.0702
2006				
First quarter	8.0167	8.0498	8.0702	8.0167
Second quarter	7.9943	8.0104	8.0300	7.9943
Third quarter	7.8965	7.9654	8.0018	7.9040
Fourth quarter	7.8041	7.8626	7.9168	7.8041
2007				
First quarter	7.7232	7.7582	7.8127	7.7232
Second quarter	7.6120	7.6784	7.7345	7.6120
Third quarter	7.4928	7.5579	7.6181	7.4928
Fourth quarter	7.2946	7.4326	7.5158	7.2946
2008				
First quarter	7.0105	7.1590	7.2946	7.0120
Second quarter (up to 7 May 2008)	6.9815	6.9971	7.0185	6.9860

Source: Federal Reserve Bank of New York (www.newyorkfed.org)

The following table sets forth, for each of the years indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in Renminbi per HK dollar:

Period	Noon Buying Rate			Period End
	Low	Average	High	
		(RMB per HK\$)		
2004				
First quarter	1.0614	1.0641	1.0662	1.0621
Second quarter	1.0610	1.0615	1.0629	1.0611
Third quarter	1.0610	1.0612	1.0615	1.0613
Fourth quarter	1.0612	1.0638	1.0652	1.0649
2005				
First quarter	1.0611	1.0614	1.0642	1.0612
Second quarter	1.0612	1.0627	1.0653	1.0649
Third quarter	1.0417	1.0474	1.0654	1.0432
Fourth quarter	1.0409	1.0424	1.0435	1.0409
2006				
First quarter	1.0331	1.0377	1.0411	1.0331
Second quarter	1.0293	1.0326	1.0351	1.0293
Third quarter	1.0139	1.0242	1.0293	1.0145
Fourth quarter	1.0035	1.0106	1.0165	1.0035
2007				
First quarter	0.9884	0.9936	1.0033	0.9884
Second quarter	0.9736	0.9824	0.9896	0.9736
Third quarter	0.9636	0.9681	0.9744	0.9645
Fourth quarter	0.9354	0.9559	0.9695	0.9354
2008				
First quarter	0.9009	0.9185	0.9339	0.9011
Second quarter (up to 7 May 2008)	0.8957	0.8980	0.9012	0.8964

Source: Federal Reserve Bank of New York (www.newyorkfed.org)

Under the Linked Exchange Rate System established in 1983, HK dollar banknotes are fully backed by US dollars at a rate of US\$1.00 to HK\$7.80 (the “**Linked Rate**”). The central element in the arrangements which give effect to the link is that by agreement between the Hong Kong government and the three Hong Kong banknote issuing banks, The Hongkong and Shanghai Banking Corporation Limited, Standard Chartered Bank and Bank of China (now Bank of China (Hong Kong) Limited), certificates of indebtedness, which are issued by the Hong Kong Government Exchange Fund to the banknote issuing banks to be held as cover for the banknotes issued, are issued and redeemed only against payment in US dollars, at the fixed exchange rate of US\$1.00 to HK\$7.80. When the banknotes are withdrawn from circulation, the banknote issuing banks surrender the certificates of indebtedness to the Hong Kong Government Exchange Fund and are paid the equivalent US dollars at the fixed rate of exchange.

Depending on the flow of funds into and out of the HK dollar market, the Hong Kong Monetary Authority (“**HKMA**”) operates convertibility undertakings on both the strong side and the weak side of the Linked Rate. The strong-side convertibility undertaking requires the HKMA to buy US dollars from licensed banks at up to US\$1.00 to HK\$7.75 whilst the weak-side convertibility undertaking requires the HKMA to sell US dollars up to US\$1.00 to HK\$7.85. The HKMA may choose to conduct market operations consistent with Currency Board principles within the range of HK\$7.75 and HK\$7.85 to US\$1.00 to promote monetary consistency in the foreign exchange markets.

The following table sets forth, for each of the years indicated, the low, average, high and period-end noon buying rates in New York City for cable transfers, in HK dollars per US dollar:

Period	Noon Buying Rate			Period End
	Low	Average	High	
		(HK\$ per US\$)		
2004				
First quarter	7.7632	7.7788	7.7980	7.7930
Second quarter	7.7870	7.7973	7.8010	7.8000
Third quarter	7.7970	7.7997	7.8008	7.7984
Fourth quarter	7.7698	7.7799	7.7990	7.7723
2005				
First quarter	7.7775	7.7979	7.7999	7.7990
Second quarter	7.7692	7.7883	7.7995	7.7719
Third quarter	7.7567	7.7692	7.7792	7.7567
Fourth quarter	7.7514	7.7542	7.7587	7.7533
2006				
First quarter	7.7506	7.7574	7.7620	7.7597
Second quarter	7.7510	7.7579	7.7684	7.7666
Third quarter	7.7670	7.7773	7.7913	7.7913
Fourth quarter	7.7665	7.7800	7.7928	7.7771
2007				
First quarter	7.7797	7.8081	7.8177	7.8137
Second quarter	7.8044	7.8161	7.8236	7.8184
Third quarter	7.7591	7.8067	7.8289	7.7689
Fourth quarter	7.7497	7.7760	7.8073	7.7984
2008				
First quarter	7.7642	7.7940	7.8107	7.7819
Second quarter (up to 7 May 2008)	7.7863	7.7915	7.7963	7.7935

Source: Federal Reserve Bank of New York (www.newyorkfed.org)

DIVIDENDS

Subject to the Companies Law and the Articles of Association, the Company in general meeting may declare dividends but no dividend shall exceed the amount recommended by the Board. The Board may from time to time pay such interim dividends to the shareholders of the Company as may appear to the Board to be justified by the profits of the Company. No dividend shall be paid otherwise than out of the profits and revenue of the Company lawfully available for distribution including share premium. No dividends shall carry interest.

	<u>2007</u>	<u>2006</u>
	<u>RMB'000</u>	<u>RMB'000</u>
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 ⁽¹⁾	<u>—</u>	<u>86,000</u>
	<u>34,789</u>	<u>86,000</u>

Notes:

- (1) 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.

The final dividend of 8 HK¢ per Share for the year ended 31 December 2007 has been proposed by the directors on 21 April 2008 and is subject to approval by the shareholders in general meeting.

TAXATION

The following summary of certain tax consequences of the purchase, ownership and disposition of the Bonds and Shares is based upon applicable laws, regulations, rulings and decisions in effect as of the date of this Offering Circular, all of which are subject to change (possibly with retroactive effect). This discussion does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds or Shares and does not purport to deal with consequences applicable to all categories of investors, some of which may be subject to special rules. Persons considering the purchase of the Bonds should consult their own tax advisers concerning the tax consequences of the purchase, ownership and disposition of the Bonds and Shares.

Prospective investors should consult their professional advisers on the possible tax consequences of buying, holding or selling any Bonds or Shares under the laws of their country of citizenship, residence or domicile.

Cayman Islands

Cayman Islands Taxation

The following is a discussion on certain Cayman Islands income tax consequences of an investment in the Bonds. The discussion is a general summary of present law, which is subject to prospective and retroactive change. It is not intended as tax advice, does not consider any investor's particular circumstances, and does not consider tax consequences other than those arising under Cayman Islands law.

Payments of interest and principal on the Bonds and dividends and capital in respect of the Shares will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal or a dividend or capital to any holder of the Notes or Shares, as the case may be, nor will gains derived from the disposal of the Notes or Shares be subject to Cayman Islands income or corporation tax. The Cayman Islands currently have no income, corporation or capital gains tax and no estate duty, inheritance tax or gift tax.

No stamp duty is payable in respect of the issue of the Bonds. An instrument of transfer in respect of a Bond is stampable if executed in or brought into the Cayman Islands.

No stamp duty is payable in respect of the issue of the Shares or on an instrument of transfer in respect of a Share.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments of principal (including Early Redemption Amounts) in respect of the Bonds.

No tax is payable in Hong Kong by withholding or otherwise in respect of payments of dividends on the Shares.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the

sale, disposal, conversion or redemption of the Bonds where such sale, disposal, conversion or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Interest on the Bonds will be subject to Hong Kong profits tax where such interest has a Hong Kong source, and is received by or accrues to:

- (a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong; or
- (b) a corporation carrying on a trade, profession or business in Hong Kong; or
- (c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and such interest is in respect of the funds of the trade, profession or business.

Although no tax is imposed in Hong Kong in respect of capital gains, Hong Kong profits tax may be chargeable on trading gains arising on the sale or disposal of the Shares where such transactions are or form part of a trade, profession or business carried on in Hong Kong.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue, transfer (for so long as the register of holders of the Bonds is maintained outside Hong Kong) or conversion of a Bond.

No Hong Kong stamp duty will be chargeable upon the issue of the Shares. Hong Kong stamp duty is payable, however, on any purchase and sale of Shares for as long as the transfer thereof is required to be registered in Hong Kong. The duty is charged on each of the purchaser and the seller at the *ad valorem* rate of 0.1% of the consideration for, or (if greater) the value of, the Shares bought and sold. In other words, a total of 0.2% is currently payable on a typical sale and purchase transaction of Shares. In addition, any instrument of transfer (if required) will be subject to a flat rate of stamp duty of HK\$5. Where a sale or purchase of Shares registered on a Hong Kong share register is effected by a person who is not resident in Hong Kong and any stamp duty payable thereon is not paid, the relevant instrument of transfer (if any) is chargeable with such duty in default and the transferee is liable to pay such duty.

EU Directive on the Taxation of Savings Income

The Council of the European Union has adopted a new directive regarding the taxation of savings income. Member States are required from 1 January 2005 to provide to the tax authorities of other Member States details of payments of interest (or other similar income) paid by a person within its jurisdiction to or for the benefit of an individual resident in that other Member State, except that Belgium, Luxembourg and Austria will instead operate a withholding system for a transitional period in relation to such payments unless during such period they elect otherwise.

SUBSCRIPTION AND SALE

THE BONDS

The Company has entered into a subscription agreement with the Lead Manager dated 22 April 2008 (the “**Subscription Agreement**”) pursuant to which, and subject to certain conditions contained therein, the Company agreed to sell to the Lead Manager, and the Lead Manager agreed to subscribe for RMB1,996,300,000 in aggregate principal amount of the Bonds. The subscription amount payable in respect of each Bond on the Closing Date is US\$14,303.696, based on an issue price of 100% and an exchange rate of RMB6.9912 to US\$1.00.

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

Fortune Apex Limited has executed a lock-up agreement whereby it has undertaken not to sell any Shares or enter into other transactions with a similar effect for a period from the date of the Subscription Agreement until 90 days after the Closing Date.

The Subscription Agreement provides that the Company will indemnify the Lead Manager against certain liabilities, including liabilities in connection with the offer and sale of the Bonds. The Subscription Agreement provides that the obligations of the Lead Manager is subject to certain conditions precedent, and entitles the Lead Manager to terminate it in certain circumstances prior to payment being made to the Company.

The Lead Manager and its subsidiaries and affiliates may purchase the Bonds for its or their own account and enter into transactions, including (i) credit derivatives, including asset swaps, repackaging and credit default swaps relating to the Bonds and/or the Company’s securities or (ii) equity derivatives and stock loan transactions relating to the Shares at the same time as the offer and sale of the Bonds or in secondary market transactions. Such transactions would be carried out as bilateral trades with selected counterparties and separately from any existing sale or resale of the Bonds to which this Offering Circular relates (notwithstanding that such selected counterparties may also be purchasers of the Bonds). The Lead Manager and its subsidiaries and affiliates may have performed certain investment banking and advisory services for the Company and/or its subsidiaries from time to time for which they would have received customary fees and expenses. In addition to the transactions noted above, the Lead Manager and its subsidiaries and affiliates may, from time to time, engage in other transactions with and perform services for the Company and/or its subsidiaries and affiliates in the ordinary course of their business. In addition, the Lead Manager and its subsidiaries and affiliates may hold Shares as beneficial owners, on behalf of clients or in the capacity of investment advisors.

EQUITY SWAP

Overview

Concurrently with the execution of the Subscription Agreement, the Company entered into the Equity Swap with Morgan Stanley & Co. International plc, in its capacity as swap counterparty (the “**Equity Swap**”

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

- (a) any holder of the Bonds validly exercises all or part of its Conversion Rights;
- (b) the Company validly exercises its option to mandatorily convert all or some only of the Bonds under the Terms and Conditions of the Bonds; or
- (c) any Bonds become repayable prior to 14 May 2011 by reason of the exercise by the Company of its call options or by reason of exercise by any holder of the Bonds of its put options under the Terms and Conditions of the Bonds.

The Initial Price is HK\$13.6783 and the Final Price will be determined by reference to the arithmetic average of the volume weighted average price per Share on each Averaging Date in the relevant averaging period. The initial price of HK\$13.6783 is the volume weighted average price of the Shares on April 22, 2008, the day when the Subscription Agreement was executed.

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

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

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

Where:

RMB1,996.3 million is the aggregate principal amount of the Bonds;

50% is the percentage of the proceeds from the issue of the Bonds used to enter into the Equity Swap;

0.8968 is the exchange rate of HK\$0.8968 to RMB1; and

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

The Company’s purpose in entering into the Equity Swap is to provide itself with a hedge against an increase in its Share price above the Initial Price. If the Final Price is higher than the Initial Price, the Equity Swap Counterparty will be required to pay the Company an amount determined by reference to the difference between the Final Price and the Initial Price. If the Final Price is lower than the Initial Price, the Company will be required to pay the Equity Swap Counterparty an amount determined by reference to that difference. In all circumstances the Equity Swap will be settled in cash on the third currency business day after the determination of the Final Price and will have no impact on the Company’s issued share capital or the shareholdings of the Company’s shareholders. In addition, the Equity Swap allows the Equity Swap Counterparty to provide hedging

transactions to Bond investors (to which the Company is not a party) and such arrangements are expected to enhance Bond investors' demand for the transaction and thus benefit the Company by helping with marketing and pricing of the Bonds. For every one Hong Kong dollar movement in the Company's Share price, the unrealised gain or loss arising from the Equity Swap (an unrealised gain if the Share price increases and an unrealised loss if the Share price decreases) is HK\$81,370,707. The maximum potential financial downside risk to the Company of the Equity Swap is, in the event the Share price falls to zero, the total cost of the Equity Swap to the Company, that is approximately HK\$1,113 million.

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

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

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

The Company believes that the fair value of the Equity Swap on 22 April 2008 was approximately HK\$1,113 million (being the number of Shares underlying the Equity Swap multiplied by the volume weighted average price of the Shares on 22 April 2008).

The Equity Swap incorporates by reference the terms of the 2002 ISDA Master Agreement published by the International Swaps and Derivatives Association, Inc. (the "**ISDA Form**"), but without a Schedule of elections thereto other than the election of English law as the governing law and Hong Kong as the "**Termination Currency**". The Company agreed with the Equity Swap Counterparty that both parties will use reasonable efforts promptly to negotiate, execute and deliver an agreement (the "**ISDA Master Agreement**") in the ISDA Form, including a Schedule reflecting such elections and modifications as agreed between the parties. Upon such execution and delivery, the Equity Swap will be governed by, and form part of, the ISDA Master Agreement.

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

Trade Date :	22 April 2008, being the date on which the Equity Swap is agreed.
Effective Date :	the date of issuance of the Bonds.
Termination Date :	with respect to the relevant number of Shares subject to termination, the earlier of (i) the scheduled termination date, and (ii) an optional early termination date.
Equity Amount Payer :	the Equity Swap Counterparty, being the party which will make a payment with respect to the price of the Share to the Equity Amount Receiver if the market price of the Shares increases.
Equity Amount Receiver :	the Company, being the party which will make a payment with respect to the price of the Share to the Equity Amount Payer if the market price of the Shares decreases.

- Equity Notional Amount : HK\$1,113,012,941.55, being the value of Shares for which Share price hedging is provided under the Equity Swap.
- Settlement : Payments will be made in HK dollars. No physical delivery of Shares will be required under the Equity Swap.
- Initial Exchange Amount : HK\$1,113,012,941.55
- Optional Early Termination Event :
- (a) any holder of the Bonds validly exercises all or part of its Conversion Rights;
 - (b) the Company validly exercises its option to mandatorily convert all or some only of the Bonds under the Terms and Conditions of the Bonds; or
 - (c) any Bonds become repayable prior to 14 May 2011 by reason of the exercise by the Company of its call options or by reason of exercise by any holder of the Bonds of its put options under the Terms and Conditions of the Bonds.

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

Reasons for and benefit of the equity swap

The Company believes that a repurchase of Shares at current market prices would enhance its net value and its earnings per Share. However, any repurchase of Shares by the Company before and after entering into the Equity Swap and the issue of the Bonds may be subject to market conditions, the availability of its share repurchase mandate from shareholders and compliance with the Listing Rules and relevant law. The Company intends to repurchase Shares in the open market in the future. If share prices increase in the future, the Equity Swap Counterparty will be required to pay the Company an amount determined by reference to the difference between the future market price and the Initial Price under the Equity Swap and vice versa. Therefore, if the Company repurchases Shares in the open market in the future, the Equity Swap will hedge the Company against future share price increases.

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

GENERAL

The Bonds are a new issue of securities with no established trading market. Approval in-principle has been received for the listing of the Bonds on the SGX-ST. However, no assurance can be given as to the liquidity of any trading market for the Bonds.

In so far as Morgan Stanley & Co. International plc is “**dealing in securities**” as defined in Schedule 5 of the Securities and Futures Ordinance (Cap.571) of Hong Kong (the “**SFO**”), it shall only do so through its agent Morgan Stanley Asia Limited and only in circumstances such that none of the sub-provisions (I), (II), (III), (IV) and (V) in sub-paragraph (iv) to the definition of “**dealing in securities**” in Part 2 of Schedule 5 of the SFO are applicable.

The distribution of this Offering Circular or any offering material and the offering, sale or delivery of the Bonds is restricted by law in certain jurisdictions. Therefore, persons who may come into possession of this Offering Circular or any offering material are advised to consult with their own legal advisers as to what restrictions may be applicable to them and to observe such restrictions. This Offering Circular may not be used for the purpose of an offer or invitation in any circumstances in which such offer or invitation is not authorised.

No action has been or will be taken in any jurisdiction by the Company or the Lead Manager that would permit a public offering, or any other offering under circumstances not permitted by applicable law, of the Bonds or the Shares to be issued on conversion of the Bonds, or possession or distribution of this Offering Circular, any amendment or supplement thereto issued in connection with the proposed re-sale of the Bonds or any other offering or publicity material relating to the Bonds or the Shares to be issued on conversion of the Bonds, in any country or jurisdiction where action for that purpose is required. Accordingly, neither the Bonds nor any of the Shares issuable on conversion of the Bonds may be offered or sold, directly or indirectly, and neither this Offering Circular nor any other offering material or advertisements in connection with the Bonds or the Shares issuable on conversion of the Bonds may be distributed or published, by the Company or the Lead Manager, in or from any country or jurisdiction, except in circumstances which will result in compliance with all applicable rules and regulations of any such country or jurisdiction and will not impose any obligations on the Company or the Lead Manager.

United States

The Bonds and the Shares to be issued upon conversion of the Bonds have not been and will not be registered under the Securities Act or any state securities law and, subject to certain exceptions, may not be offered or sold within the United States.

The Bonds are being offered and sold outside the United States in reliance on Regulation S.

Public Offer Selling Restriction under the Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “**Relevant Member State**”), the Lead Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”) it has not made and will not make an offer of Bonds which are the subject of the offering contemplated by this Offering Circular to the public in that Relevant Member State other than:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Lead Manager; or

(d) at any time in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Bonds shall require the Issuer or the Lead Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of Bonds to the public**” in relation to any Bonds in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Bonds to be offered so as to enable an investor to decide to purchase or subscribe the Bonds, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United Kingdom

The Lead Manager has represented, warranted and agreed that:

- (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of section 21 of the Financial Services and Markets Act 2000 (the “**FSMA**”) received by it in connection with the issue or sale of any Bonds in circumstances in which section 21(1) of the FSMA does not apply to the Issuer; and
- (2) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Bonds in, from or otherwise involving the United Kingdom.

Hong Kong

The Lead Manager has represented and agreed that (i) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Bonds other than (a) to “**professional investors**” as defined in the SFO and any rules made under that Ordinance; or (b) in other circumstances which do not result in the document being a “**prospectus**” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and (ii) it has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue, whether in Hong Kong or elsewhere, any advertisement, invitation or document relating to the Bonds, which is directed at, or the contents of which are likely to be accessed or read by, the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Bonds which are or are intended to be disposed of only to persons outside Hong Kong or only to “**professional investors**” as defined in the SFO and any rules made under that Ordinance.

The People’s Republic of China

The Lead Manager has represented, warranted and agreed that the Bonds are not being offered or sold and may not be offered or sold, directly or indirectly, in the People’s Republic of China (for such purposes, not including the Hong Kong and Macau Special Administrative Regions or Taiwan), except as permitted by the Securities Laws of the People’s Republic of China.

The Cayman Islands

The Lead Manager has represented, warranted and agreed that it has not made and will not make any invitation directly or indirectly to the public in the Cayman Islands to offer or sell the Bonds.

Singapore

The Lead Manager has acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Lead Manager has represented, warranted and agreed it has not offered or sold any Bonds or caused the Bonds to be made the subject of an invitation for subscription or purchase and will not offer or sell any Bonds or cause the Bonds to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this Offering Circular or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Bonds, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A), and in accordance with the conditions specified in Section 275, of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Note:

Where the Bonds are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Bonds pursuant to an offer made under Section 275 of the SFA, except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than S\$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

Japan

The Bonds have not been and will not be registered under the Securities and Exchange Law of Japan (the “**Securities and Exchange Law**”). Accordingly the Lead Manager represents, warrants and agrees that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Bonds in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan) or to others for re-offering or re-sale, directly or indirectly, in Japan or to, or for the benefit of any resident of Japan except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law and other applicable laws and regulations of Japan.

GENERAL INFORMATION

1. **Clearing Systems:** The Bonds have been accepted for clearance through Euroclear and Clearstream, Luxembourg under Common Code number 0360904212 and the International Securities Identification Number for the Bonds is XS036090421.

2. **Listing of Shares:** Application has been made to the Hong Kong Stock Exchange for the listing of, and permission to deal in, the Shares arising on conversion of the Bonds.

3. **Listing of Bonds:** Approval in-principle has been received for the listing of the Bonds on the SGX-ST. The Bonds will be traded and settled in US dollars only. The Bonds will be traded on the SGX-ST in a minimum board lot size of US\$200,000 for so long as the Bonds are listed on the SGX-ST. For so long as the Bonds are listed on the SGX-ST and the rules of the SGX-ST so require, the Company shall appoint and maintain a paying agent in Singapore, where the Bonds may be presented or surrendered for payment or redemption, in the event that the Global Certificate is exchanged for Certificates in definitive form. In addition, in the event that the Global Certificate is exchanged for Certificates in definitive form, announcement of such exchange shall be made by or on behalf of the Company through the SGX-ST and such announcement will include all material information with respect to the delivery of the Certificates in definitive form, including details of the paying agent in Singapore.

4. **Authorisations:** The Company has obtained all necessary consents, approvals and authorisations in connection with the issue and performance of the Bonds. The issue of the Bonds was authorised by resolutions of the Board of Directors of the Company passed on 22 April 2008.

5. **No Material Adverse Change:** Except as disclosed in this Offering Circular, as at the date of this Offering Circular, there has been no material adverse change in the financial or trading position or prospect of the Company and the Group since 31 December 2007.

6. **Litigation:** Save as disclosed in this Offering Circular, neither the Company nor any of its subsidiaries is involved in any litigation or arbitration proceedings which are material in the context of the Bonds nor is the Company aware that any such proceedings are pending or threatened.

7. **Available Documents:** The latest annual report and consolidated accounts of the Company and the latest unaudited interim consolidated accounts of the Company, as well as the Trust Deed and the Agency Agreement, will be available for inspection at the offices of Charltons, Hutchison House, 10th Floor, 10 Harcourt Road, Hong Kong during normal business hours, so long as any of the Bonds is outstanding. The Company publishes unaudited consolidated interim financial statements every year for the six months ended 30 June.

8. **Reliance by the Trustee:** The Trustee is entitled under the Trust Deed to rely without liability to the Bondholders on certificates prepared by the directors of the Company and accompanied by a certificate or report prepared by an internationally recognised firm of accountants or other expert to the Company whether or not addressed to the Trustee, and whether or not the same are subject to any limitation on the liability of the internationally recognised firm of accountants or other expert to the Company and whether by reference to a monetary cap or otherwise limited or excluded and shall be obliged to do so where the certificate or report is delivered pursuant to the obligation of the Company to procure such delivery under the Terms and Conditions or the Trust Deed. Any such certificate or report shall be conclusive and binding on the Company, the Trustee and the Bondholders.

9. **Auditors:** The consolidated financial statements of the Company as at and for the year ended 31 December 2005, 2006 and 2007 incorporated by reference in this Offering Circular have been audited by Deloitte Touche Tohmatsu, Certified Public Accountants, as stated in their audit report appearing therein.

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China High Speed Transmission Equipment Group Co., Ltd.