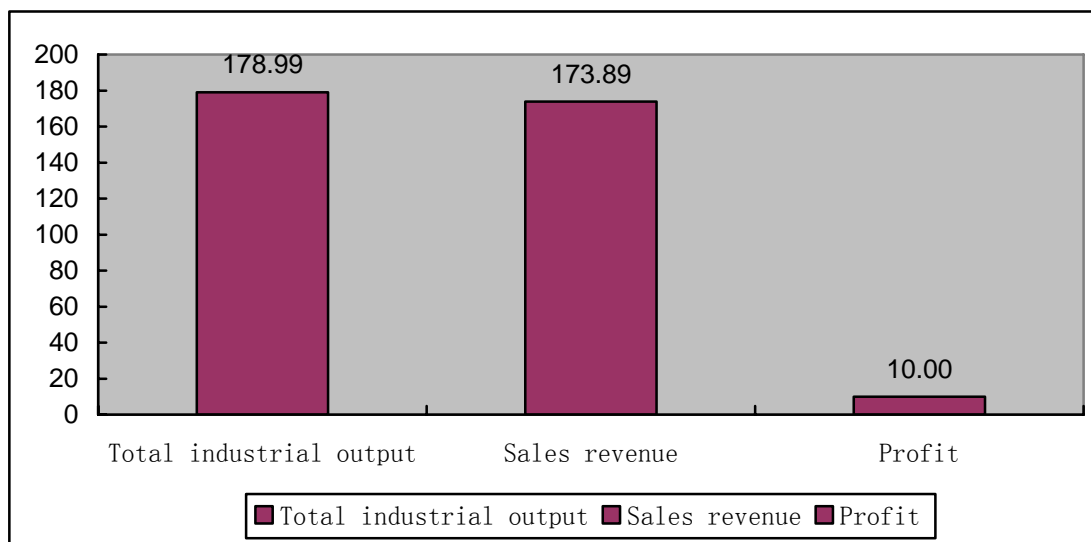


In 2006, the total industrial output value of China gear, transmission and drive parts manufacturing industry amounted to around CNY35.9 billion, the accumulated sales revenue reached CNY34.16 billion and the accumulated profit hit CNY1.96 billion, up 25.52%, 23.89% and 34.27% year on year respectively.

During January to May 2007, the total industrial output value of China gear, transmission and drive parts manufacturing industry amounted to CNY17.91 billion, the accumulated sales revenue reached CNY17.39 billion and the accumulated profit hit CNY1 billion, up 31.79%, 33.26% and 37.62% year on year respectively.

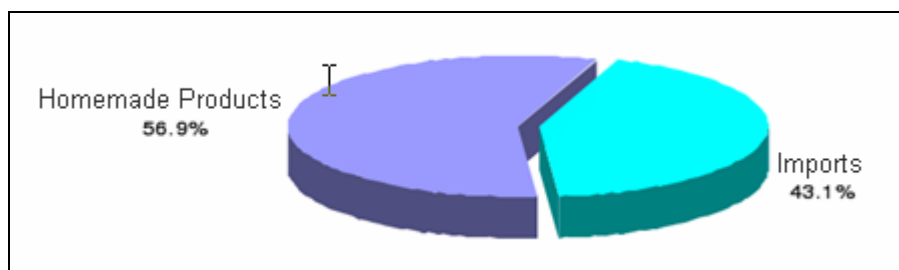
Total Industrial Output Value, Sales Revenue and Profit, Jan.-May 2007

(Unit: CNY100 million)



Source: ResearchInChina

By the end of the 11th Five-Year Plan period (2006-2010), China is expected to rank second of world with annual gear manufacturing sales reaching CNY130 billion and per capita sales revenue up to CNY650, 000 per year.



Source: China Machinery Industry Federation

Competitive Pattern

With globalization increasingly deepened, China transmission and drive market now can mirror the competitive pattern in the whole world. Taking car gearbox as the example, the global top three independent automatic transmission manufacturers had all made their presence in Chinese market by 2007: Aisin AW's plant in Tianjin plans to start the business of deep processing of parts and components in addition to provide CKD products for TOYOTA CROWN and TOYOTA REIZ. ZF has moved automatic transmission production to its joint-venture plant in China instead of export that lasted for many years. JATCO has decided finally to build a plant in Guangzhou, Guangdong province. As a result, two different groups will appear in Chinese transmission market, i.e. joint venture specialized in automatic transmission production and independent brands focused on manual transmission production. With the businesses probably overlapped, the two groups can be mutually beneficial if cooperate.

The competition in China gear, transmission and drive manufacturing parts industry comes from three tiers. The first tier includes multi-national companies led by SEW and Siemens and wholly-owned or joint ventures by companies from Hong Kong, Macao and Taiwan. These companies have occupied a majority of the high-end market on advantages in technology and equipments. The second tier comes to state-owned holding manufacturers which win some market shares due to strength in capital, introduction of advanced equipments, production size and capacity, and play a key role in protecting the national industry and developing national brands. The third tier is SMEs which perform greatly dynamic in the market with flexible operations and take up more than half of the market under the good industry environments.

China's gear, transmission and drive industry is mainly based in the eastern coastal regions. Only a minority of enterprises is located in central and west China but some of them are very competitive, like Chongqing Gearbox Co., Ltd. As such, the foreign-funded companies have also the similar regional structure.

As China machinery industry develops fast, a large number of large-sized and competitive gear manufacturers begin to come forth, including Chongqing Gearbox Co., Ltd, Nanjing High-Speed & Accurate Gear Group Co., Ltd, Hangzhou Advance Gearbox Group Co., Ltd, Shanxi Fast Gear Co., Ltd, Zhejiang Shuanghuan Driveline Co., Ltd, ZheJiang Zomax Auto-Transmission Co.,Ltd, Fixedstar Group, Hangzhou Wanjie Speed Reducer Co., Ltd, and Zhejiang Tongli Speed Reducers Co., Ltd. These enterprises have tapped into international markets and won some market shares.

**Top 10 Manufacturers in China Gear, Transmission and Drive Parts Manufacturing
Industry, 2007**

Company Name	Multiple of Average Operating Income of Manufacturers	Market Share (%)
Hangzhou Advance Gearbox Group Co., Ltd	*	*
Chongqing Gearbox Co., Ltd,	*	*
Shandong Xinfu Machinery Manufacturing Co. Ltd	*	*
Zhejiang Hengjiu Machinery Group Co., Ltd	*	*
AsiaTrak (Tianjin) Ltd	*	*
Shandong Haoxin Machine Co., Ltd	*	*
Zhaoyuan Dikai Crankshaft Company	*	*
Shandong Yinglun Machinery Co., Ltd	*	*
Flender Power Transmission(Tianjin)Co.,Ltd	*	*
Shijiazhuang Sprocket General Factory	*	*