株洲南車時代電氣股份有限公司
ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

(a joint stock company incorporated in the People's Republic of China with limited liability)

(Stock Code: 3898)

07

annual report

Contents

Company Profile

The Group is the leading train-borne electrical system provider and integrator for the PRC railway industry. The Group possesses comprehensive capabilities in research and development, design, manufacture, sales and customer service.

The Group is also engaged in developing, manufacturing and selling train power converts, auxiliary power supply equipment and control system for trains for urban rails systems.

In addition, the Group designs, manufactures and sells electrical components for the PRC railway industry, the urban railway industry and non-railway applications. The Group's electrical component products include power semiconductor devices, sensors and related products.

On 20 December 2006, H shares of the Company were listed on the Main Board of the Stock Exchange.

Financial Highlights

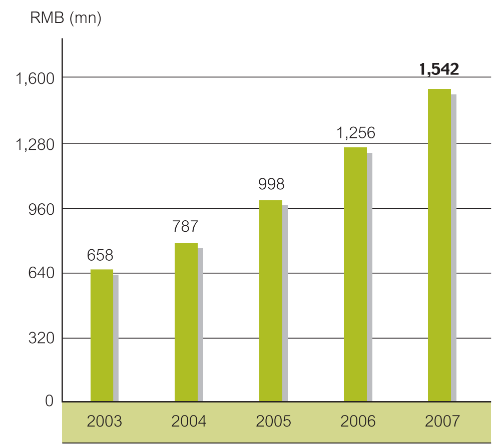
CONSOLIDATED INCOME STATEMENT HIGHLIGHTS

	Year Ended 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Revenue	**1,541,804**	1,255,926	997,976	787,756	658,762
Profit from operation	**332,579**	317,013	232,375	187,591	86,609
Profit before tax	**344,911**	302,581	218,556	185,047	96,412
Profit for the year	**347,477**	302,268	217,917	182,421	96,412
Minority Interest	**88**	5,497	6,184	19,741	(2,118)
Profits attributable to equity holders of the Parent Company	**347,389**	296,771	211,733	162,680	98,530
Basic earnings per share attributable to ordinary equity holders of the Parent Company	**RMB0.32**	RMB0.44	RMB0.33	RMB0.26	RMB0.16

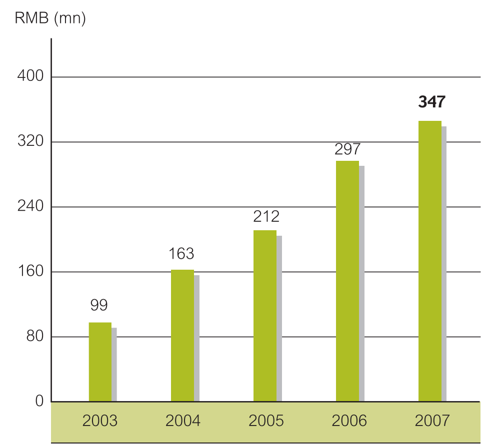
CONSOLIDATED BALANCE SHEET HIGHLIGHTS

	As at 31 December				
	2007 RMB'000	2006 RMB'000	2005 RMB'000	2004 RMB'000	2003 RMB'000
Total assets	**3,644,903**	3,788,256	1,481,397	1,289,124	1,061,433
Total liabilities	**483,453**	940,246	825,190	770,482	465,243
Net assets	**3,161,450**	2,848,010	656,207	518,642	596,190

2003-2007 Growth in revenue



2003-2007 Growth in net profit



Expanded Future

Chairman's Report

Dear Shareholders,

I am pleased to present the Annual Report of the Group for the year ended 31 December 2007. On behalf of the Board of Directors, I would like to express our gratitude to all shareholders for your care and support.

Business Review

The Group's turnover in 2007 was RMB1,541,804,000 (2006: RMB1,255,926,000), an increase of 22.8% from the previous year. Profit attributable to equity holders of the Parent Company was RMB347,389,000 (2006: RMB296,771,000), an increase of 17.1% over the previous year. Earnings per share was RMB0.32 (2006: RMB0.44).

2007 was a year of rapid development, project breakthroughs and management enhancement for the Group. The first electric multiple unit (the "EMU") project was completed successfully, assuring the successful implementation of the sixth round of nationwide train speed increase. We were able to have access to high power A/C locomotive related technologies. We also achieved breakthroughs in the urban rail market.

Outlook

2008 will be a critical year for the long term development of the Group. We will adopt the following strategies to capture new opportunities and to overcome challenges. We aim to enhance our localisation capabilities through technology acquisitions and innovations. We will develop further our technology integration capabilities and improve on product reliability. Our manufacturing capabilities will be upgraded. We aim to increase the market share of our existing products and continue to explore non-railway, overseas and other new markets. We aim to realise greater integration in our business flow and achieve breakthrough via merger and acquisition of upstream and downstream industries and resources. Our corporate management and control standards will be strengthened with the aim of establishing a management system that meets international capital market standards.

The Group is confident of its future. Our long term objective is to consolidate our leading position in the PRC railway train-borne electrical systems market and to become an internationally renowned train-borne electrical system supplier and integrator. Using our capital platform, we aim to build a solid business foundation and to create greater value for our shareholders. We look forward to sharing fruits of our endeavour with you.

Ding Rongjun
Chairman

Zhuhai, PRC
21 April 2008

Delivery and Growth

Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with the Group's audited financial statements and their notes as set out in this annual report.

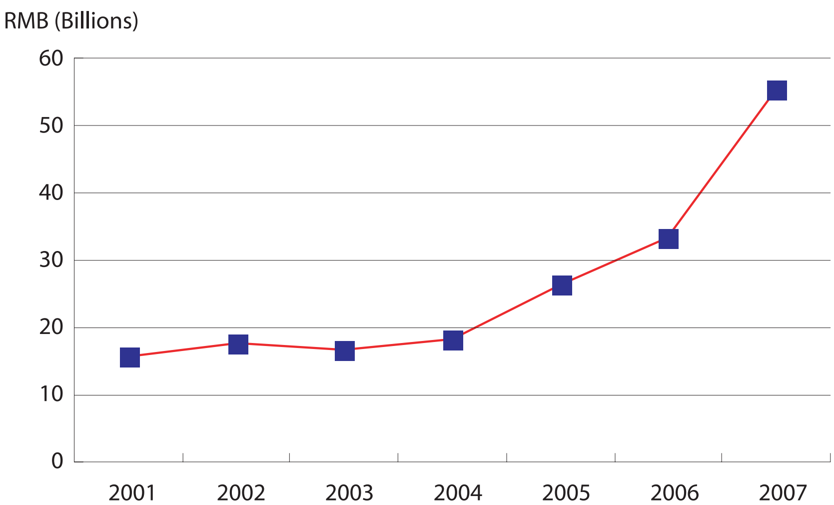
Industry Overview

According to the 2007 Railway Statistics Gazette issued by the Ministry of Railways on 3 March 2008, at the end of 2007, the total operational length of railway in the PRC was 78,000 km, an increase of approximately 1,000 km compared with last year, making it the third longest railway in the world. Of these, total mileage of dual-track railways was 27,100 km, with dual-track rate of 34.7%; electrified mileage was 25,500 km, with electrified rate of 32.7%. Through the sixth round of nationwide train speed increase the quality of the national railway network was improved further in 2007, and railway lines for speed of over 200 km/h were extended to 6,227 km, of which railway lines for speed of 250 km/h were extended to 1,019 km.

During 2007, the level of modernization of major railway transportation equipment improved and the number of locomotives in the PRC reached 18,300 units. Of these, 67.0% were diesel locomotives and 32.4% were electric locomotives. The major railway trunk lines are all operated by diesel and electric locomotives. There were also 44,300 passenger cars and 568,500 freight cars (including 105 EMUs) in the PRC.

During 2007, railway construction in the PRC expedited, with railway fixed asset investments amounting to RMB252.07 billion, representing an increase of RMB43.23 billion, or 20.7% over the previous year. Investments in railway renewals and renovations in the PRC amounted to RMB19.53 billion, expenditure on the acquisition of locomotives amounted to RMB55.33 billion, including the acquisition of 405 locomotives, 622 passenger cars, 29,854 freight cars and 90 EMUs.

New locomotives procured by the Ministry of Railways



Source: 2001 to 2007 Railway Statistics Gazettes published by Railway Statistics Center

Revenue

	2007 (RMB million)	2006 (RMB million)
Train power converters, auxiliary power supply equipment and control systems	**812.6**	494.2
Train operation safety equipment	**293.3**	369.7
Electrical control systems for large railway maintenance vehicles	**141.4**	124.7
Train-borne electrical systems	**1,247.3**	988.6
Power semiconductor devices	**122.9**	96.1
Sensors and related products	**63.6**	89.0
Other products	**108.0**	82.2
Electric components	**294.5**	267.3
Total revenue	**1,541.8**	1,255.9

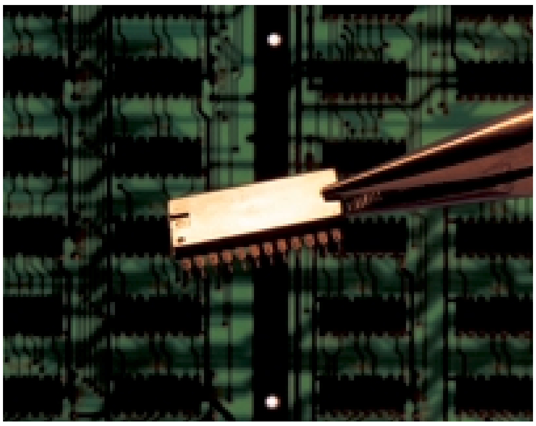
Revenue increased by RMB285.9 million from RMB1,255.9 million for the year ended 31 December 2006 to RMB1,541.8 million for the year ended 31 December 2007. Revenue of RMB108 million from other products in 2007 consisted of revenue of RMB56.5 million from busbar and printed circuit board and revenue of RMB51.5 million from overseas export. The increase in revenue was mainly due to increase in revenue from the sale of train power converters, auxiliary power supply equipment and control systems. The increased in sales of 200 km/h EMU products led to an increase in the Group's revenue. On the other hand, product upgrades and replacement for train operation safety equipment in accordance to new regulatory policies by the Ministry of Railway had mostly been completed by 2006. As there were no such similar large scale replacements in 2007 it has resulted in a reduction in the Group's revenue for this category of products.

Cost of sales

Cost of sales increased by 35.1% to RMB865.5 million for the year ended 31 December 2007 from RMB640.4 million for the year ended 31 December 2006. The increase in cost of sales was mainly due to the growth in the Group's revenue and the use of imported components in certain 200 km/h EMU products leading to relatively higher cost.

Gross profit

Based on the above factors, the Group's gross profit increased by 9.9% to RMB676.3 million for the year ended 31 December 2007 from RMB615.5 million for the year ended 31 December 2006. The Group's gross profit margin decreased from 49.0% for the year ended 31 December 2006 to 43.9% for the year ended 31 December 2007.



Other revenue and gains

Other revenue and gains of the Group increased by 32.1% to RMB85.2 million for the year ended 31 December 2007 from RMB64.5 million for the year ended 31 December 2006. The increase in other revenue and gains was mainly due to the receipt of government grants in respect of the "State Technology Support Project" to the Group and the increase in value-added tax refund.

Selling and distribution costs

Selling and distribution costs of the Group increased by 1.1% to RMB120 million (representing 7.8% of the Group's revenue for the whole year) for the year ended 31 December 2007 from RMB118.7 million (representing 9.5% of the Group revenue for the whole year) for the year ended 31 December 2006. The selling and distribution costs were basically in line with those in 2006, however, changes in the Group's product mix resulted in a slight decline in selling and distribution costs as a percentage of the Group's full year revenue.

Administration expenses

The Group's administration expenses increased by 23.3% to RMB277.2 million for the year ended 31 December 2007 from RMB224.8 million for the year ended 31 December 2006. The increase in administration expenses was mainly due to growth in business operation and increase in expenditure in research and development.

Profit from operations

The Group's profit from operations increased by 4.9% to RMB332.6 million for the year ended 31 December 2007 from RMB317 million for the year ended 31 December 2006, which was mainly due to increase in revenue. The Group's operating profit margins for the years ended 31 December 2006 and 2007 were 25.2% and 21.6% respectively.

Finance costs

Finance costs decreased by 77.8% to RMB3.2 million for the year ended 31 December 2007 from RMB14.4 million for the year ended 31 December 2006. The reduction in finance costs was mainly due to the Group's repayment of outstanding loans resulting in decrease in the interest expenses incurred for the current year.

Profit before tax

Based on the above factors, the Group's profit before tax increased by 14.0% to RMB344.9 million for the year ended 31 December 2007 from RMB302.6 million for the year ended 31 December 2006.

Income tax expenses

The Group's income tax expenses decreased from RMB0.3 million for the year ended 31 December 2006 to RMB-2.6 million for the year ended 31 December 2007. The Group's income tax expenses comprised effective income tax of RMB4.4 million and deferred tax credit of RMB7 million. The effective income tax expenses of RMB0.3 million in 2006 were mainly income tax amounts recognized by Times Guangchuang for the twelve months ended 31 December 2006. The effective income tax expenses of RMB4.4 million in 2007 were mainly the PRC corporate income tax amounts recognized by the Company and Times Electronics for the three months from 1 October 2007 to 31 December 2007 at the corporate income tax rate of 15% and Times Guangchuang for the twelve months ended 31 December 2007 at the corporate income tax rate of 15%. The Group's deferred tax credit of RMB7 million was based on the temporary timing difference in expected deductible expenses calculated in accordance with the applicable tax rates during different periods.

The effective tax rates of the Group for the years ended 31 December 2006 and 2007 were 0.1% and -0.7% respectively.

Net profit attributable to equity holders of the Parent Company

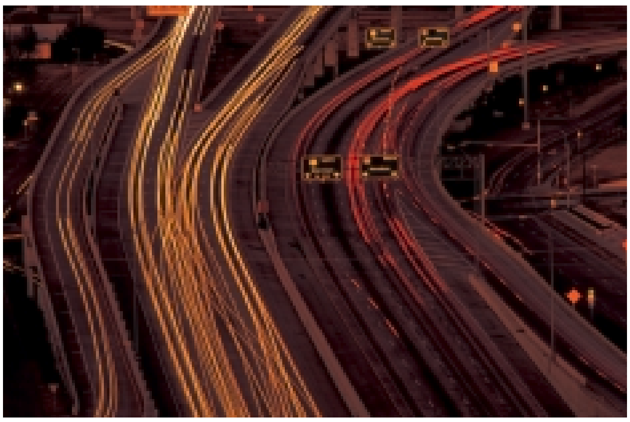
The Group's net profit attributable to equity holders of the Parent Company increased from RMB296.8 million for the year ended 31 December 2006 to RMB347.4 million for the year ended 31 December 2007. The Group's net profit margins for the years ended 31 December 2006 and 2007 were 23.6% and 22.5% respectively.

Minority interests

Minority interests decreased from RMB5.5 million for the year ended 31 December 2006 to RMB0.1 million for the year ended 31 December 2007. The reduction was mainly due to the Group's acquisition of 10% interest in Times Electronics in June 2006, after which Times Electronics became a wholly owned subsidiary of the Group. The Group recognized the minority interests of Times Electronics for the six months ended 30 June 2006.

Earnings per share

Earnings per share decreased by 27.3% from RMB0.44 for the year ended 31 December 2006 to RMB0.32 for the year ended 31 December 2007. The decrease in earnings per share was mainly due to the increase in the weighted average number of issued ordinary shares during the year by 59.0% from 682,058,366 shares in 2006 to 1,084,255,637 shares in 2007.



Liquidity and Source of Capital

Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. The Group's cash and cash equivalents decreased during the year which was mainly due to the use of IPO proceeds in accordance with the uses disclosed in the prospectus. The Board of Directors has confirmed that the Group has sufficient liquidity to meet its present requirements for liquid funds.

Net cash from operating activities

For the year ended 31 December 2007, the Group's net cash from operating activities decreased to RMB 78.6 million, mainly due to the impact of market conditions. Trade receivables recovered in the form of bills increased, resulted in a reduction in the net cash generated from operating activities.

Net cash outflow from investment activities

For the year ended 31 December 2007, the Group's net cash outflow from investment activities was approximately RMB 1,221.8 million, comprising mainly of RMB 800 million in secured time deposits with an original maturity date of three months or more and the purchase of properties, plant and equipment of RMB 280.7 million.

Net cash outflow from financing activities

For the year ended 31 December 2007, the Group's net cash outflow from financing activities amounted to RMB 407.5 million comprising the repayment of bank borrowings of RMB 367.5 million and dividends paid of RMB 40 million.

Liquidity

The Board of Directors confirms that the Group has sufficient liquidity to meet the Group's present requirements for liquid funds.

Commitments

The Group's capital commitments as at the dates indicated are set out as follows:

	As at 31 December	
	2007 (RMB million)	2006 (RMB million)
Contracted but not provided:		
Acquisitions of properties, plants and equipment	**114.2**	38.2
Intangible assets	**142.2**	—
Total	**256.4**	38.2

Indebtedness

The Group's indebtedness as at the dates indicated is set out as follows:

	As at 31 December	
	2007 (RMB million)	2006 (RMB million)
Interest bearing loans and other borrowings	—	364.5

Gearing ratio

The Group monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent. The gearing ratio was -52.8% as at 31 December 2007 and -91.2% as at 31 December 2006. The change in the gearing ratio was mainly attributed to the progressive use of proceeds from the initial public offering by the Group in accordance with the scope disclosed in the offering prospectus which led to a decrease in net asset value.

Contingent liabilities

The Group is not involved in any material litigation, and to the best of the Group's knowledge, there is no pending or potential material litigation in which the Group will be involved.

Employees and remuneration

The Group offers salary increments and bonuses to employees with outstanding performance. The bonus scheme is discretionary and is determined by the Directors with reference to the performance of the staff and the Group's operation results. The Group places great emphasis on the provision of on-the-job-training development of its employees. Each staff member is required to participate in departmental training prior to the commencement of his or her employment. In subsequent years, the management and other employees are required to undertake further relevant training as specified by the Group. As at 31 December 2007, the Group has 2,830 full time employees, and the total amount of remuneration (including salaries and allowances) for employees in 2007 was approximately RMB 165.9 million.

Market risks

The Group is subject to various market risks, including interest rate risk, foreign exchange risk and inflation risk in the ordinary course of its business. Details of the risks are set out in note 40 to the financial statements.

Directors, Supervisors and Senior Management

Directors

Ding Rongjun, aged 47, the Chairman of the Board and an executive Director. Mr. Ding joined the Parent Group in August 1984 and held the positions of deputy director and project manager of the scientific research division of ZELRI from 1999 to 2000, and the positions of deputy director, deputy chief engineer and chief engineer of ZELRI between 2000 and 2005. Mr. Ding graduated from Southwest Jiaotong University with a bachelor degree in 1984 and from Changsha Railway Institute with a master degree in 1996. Mr. Ding was appointed as an executive Director and the president of the Company in September 2005. He resigned as the president of the Company and joined ZELRI as the secretary of the Party and deputy director in December 2007. He has been the secretary of the Party and vice general manager of ZELRI since January 2008. Mr. Ding was appointed as the Chairman of the Board in December 2007.

Song Yali, aged 55, the Vice Chairman of the Board and a non-executive Director. Mr. Song is a senior economist. He joined ZELRI in January 1983 and has held the positions of supervisor of the production control room, deputy supervisor of the trial production department, head of the production operations department and chairman of the labour union. Mr. Song has been a director of Times New Materials since April 2005, and chairman of the board of directors of Times New Materials from April 2005 to March 2008. Mr. Song was the deputy director of ZELRI from November 2005 to January 2008. He has been a vice general manager of ZELRI since January 2008. Mr. Song graduated from the Party School of the Central Committee with major in Economic Management in 1998. He was appointed as the Vice Chairman of the Board and a non-executive Director in December 2007.

Lu Penghu, aged 42, an executive Director, the president and joint company secretary. Mr. Lu joined the Parent Group in November 1990 and has held the positions of deputy director of PCB Factory, director of the general office and director of planning and development department of ZELRI. Mr. Lu graduated from Lanzhou University in 1989 with major in Journalism. He obtained a bachelor degree in law from Xiangtan University in 2001, and a master degree in Software Engineering from Wuhan University in 2005. Mr. Lu was the chief administration officer and secretary of the Board and chairman of the labour union of the Company from September 2005 to December 2007. Mr. Lu was appointed as an executive Director in November 2006. He served as the Party secretary of the Company from January to December 2007, and was appointed as the president of the Company in December 2007.

Liao Bin, aged 45, a non-executive Director. Mr. Liao joined ZELRI in August 1983 and has held the positions of general manager of Zhuzhou Times Rubber & Plastics Co. Ltd. from 1998 to 2000, deputy director of ZELRI and general manager of Times New Materials from 2000 to 2001, deputy director of ZELRI and chairman of the board of directors of Times New Materials from 2001 to 2004, and director of ZELRI from 2004 to January 2008. Mr. Liao has been an executive director and general manager and vice secretary of the Party of ZELRI since January 2008. Mr. Liao is also a director of Times New Materials. Mr. Liao graduated from South China University of Science and Engineering with a bachelor degree in 1983 and completed his master degree in Business Administration at the Institute of Commerce of Hunan University in 1996. Mr. Liao was appointed as an executive Director in September 2005, and was re-designated as a non-executive Director in November 2006. He resigned as the Chairman of the Board in December 2007.

Ma Yunkun, aged 54, a non-executive Director. Mr. Ma has more than 10 years of experience in business management and is the chairman of the board of directors and general manager of Kunming China Railway since 2004. Mr. Ma has been the deputy director of Kunming Machine Factory from 1994 to 2003 and the deputy chairman of the board of directors and general manager of Kunming China Railway from 2003 to 2004. Mr. Ma was appointed as a non-executive Director in September 2005.

Zhou Heliang, aged 76, an independent non-executive Director. Mr. Zhou is a senior engineer and professor and has more than 45 years of experience in the electro-technical industry. Mr. Zhou was director and deputy director of the Electrical Equipment Industry Bureau in the PRC Ministry of Machinery Industry from 1982 to 1987, director of the Major Technical Equipment Office of the Commission of Machinery Industry of the PRC from 1987 to 1990, director of the Major Technical Equipment Office in the PRC Ministry of Machinery and Electronics Industry from 1990 to 1994, and deputy director general and general secretary of the China Electro-technical Society from 1994 to 2004. Mr. Zhou is an honorary director general of the China Electro-technical Society, a member of the expert committee of the China Machinery Industry Federation, vice chairman of the Asian Electric Automobile Institute and an executive committee member of the Asia Pacific Electric Automobile Association. Mr. Zhou was appointed as an independent non-executive Director in November 2006.

Gao Yucai, aged 67, an independent non-executive Director. Mr. Gao is a senior engineer and has more than 20 years of experience in the urban rail transportation industry. Mr. Gao was deputy director of the Beijing Public Utility Bureau from 1983 to 1990 and general manager of Beijing Metro Corporation from 1990 to 2001. Mr. Gao is a commissioner of the China Communication and Transportation Association ("CCTA") and deputy director of the urban rail transportation committee of CCTA. Mr. Gao graduated from the PLA Engineering Academy (one of the predecessors of PLA University of Science and Technology) in 1966. Mr. Gao was appointed as an independent non-executive Director in November 2006.

Chan Kam Wing, **Clement**, aged 50, an independent non-executive Director. Mr. Chan is a certified public accountant in Hong Kong, a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan possesses the appropriate financial management expertise as required by the Listing Rules. Mr. Chan has been the Asia Pacific regional director of Horwath International and the managing director of Horwath Hong Kong CPA Limited since 1996. Prior to that, Mr. Chan operated his own accounting firm. Mr. Chan was appointed as a member of the auditing team of Beijing 2008 Olympics Organising Committee in 2003. Mr. Chan graduated from City University of London with a bachelor degree in Accounting and a master degree in Commerce from the University of New South Wales. Mr. Chan was appointed as an independent non-executive Director in September 2005.

Directors, Supervisors and Senior Management

Pao Ping Wing, aged 60, an independent non-executive Director. Mr. Pao was a Fellow of the Hong Kong Institute of Directors. Mr Pao is an independent non-executive director of Oriental Press Group Limited, UDL Holdings Limited, Sing Lee Software Limited and Hembly International Holdings Limited, and also the vice chairman of Biomax Environment Holdings Limited. Mr. Pao was appointed as a Justice of Peace since 1987. Mr. Pao was appointed by The Government of the Hong Kong Special Administrative Region as a member of the Town Planning Board, the Advisory Council on the Environment, the Hong Kong Housing Authority and the Land Development Corporation. Mr. Pao obtained a master degree in Science of Human Settlement Planning and Development. Mr. Pao was appointed as an independent non-executive Director in September 2005.

Tan Xiao'ao, aged 44, an independent non-executive Director. Mr. Tan has been a practising lawyer in the PRC since 1989 and a professor of law at the law faculty of the Central South University and Hunan University since 2003. Mr. Tan was director of the Jiaoyang Law Office from 1996 to 2002, legal counsel of Hunan Taizinai Group from 2003 to 2004, deputy chairman of the board of directors, director and general manager of Hunan Taizinai Group Bio-tech Company Limited since 2004. Mr. Tan graduated from Zhongshan University with a bachelor degree in Law in 1987 and received a master degree in Executive Master in Business Administration from Tsinghua University in 2006. Mr. Tan was appointed as an independent non-executive Director in June 2006.

Supervisors

Zhang Liqiang, aged 45, a supervisor of the Company and the chairman of the Company's supervisory committee. Mr. Zhang is a senior accountant and joined the Parent Group in May 2005. Mr. Zhang was the chief accountant of ZELRI from May 2005 to January 2008. He has been a vice general manager and chief financial officer of ZELRI since January 2008. Mr. Zhang was deputy director and the director of accounting department and the director of the audit department in CSR Zhuzhou Electric Locomotive Works from 1996 to 2005. Mr. Zhang graduated from Hubei Finance and Economics Institute with a bachelor degree in Financial Accounting in 1983. Mr. Zhang was appointed as a supervisor of the Company in September 2005.

Pang Yiming, aged 44, a supervisor of the Company. Mr. Pang is the assistant to director of the marketing management department of the distribution center of the Company. Mr. Pang joined the Parent Group in October 1982 and has held positions of the assistant to the general manager of the manufacturing centre of ZELRI and the deputy general manager, chief production officer and director of the production department of Time Electronics. Mr. Pang graduated from Central South University in 2004 after a three-year study in management and engineering. Mr. Pang was appointed as a supervisor of the Company in September 2005.

Liu Ke'an, aged 37, a supervisor of the Company. Mr. Liu is a senior engineer. He joined ZELRI in August 1994 and held various positions as engineer, chief engineer, senior engineer, chief designer. He graduated from the Department of Electrical Engineering of Tongji University with a bachelor degree in engineering. He has been appointed as head of the systems project department, head of the transmission technology department, deputy director and director of the technology centre of the Company since September 2005. Mr. Liu was appointed as a supervisor of the Company in December 2007.

Senior Management

Lu Penghu, aged 42, an executive Director and the president of the Company. His biographical details are set out above.

Li Donglin, aged 41, vice president and secretary of the Party of the Company. Mr. Li joined ZELRI in July 1989 and has been a deputy chief engineer, deputy general manager of the rail transport department, director of the manufacturing centre, deputy general manager of the sales and marketing centre of ZELRI. Mr. Li graduated from Southwest Jiaotong University with a bachelor degree in Electric Traction and Transmission Control in 1989. He has served as the chief marketing officer from September 2005 to December 2007. He was appointed as the vice president and secretary of the Party of the Company in December 2007.

Feng Jianghua, aged 44, vice president and chief technology officer of the Company. Mr. Feng is a senior engineer of professor level. He joined ZELRI in August 1989 and has held positions of deputy chief engineer, director of the research and development center and director of the system integration department in ZELRI. Mr. Feng graduated from Zhejiang University with a bachelor degree in electric engineering in 1986 and a master degree in Electric Engineering in 1989. He has served as the chief technology officer of the Company since September 2005, and was appointed as the vice president and chief technology officer of the Company in December 2007.

Jiang Yi, aged 37, chief marketing officer of the Company. Mr. Jiang joined ZELRI in August 1992 and has held the positions of general manager and deputy general manager of the research and development department, director of the human resources department, director of the quality and service department, director of the after-sale service department and deputy director of the manufacturing centre of ZELRI. Mr. Jiang graduated from the Northern Jiaotong University (now known as Beijing Jiaotong University) with a bachelor degree in Electric Traction and Transmission Control in 1992. Mr. Jiang served as a supervisor of the Company from September 2005 to December 2007. He has served as general manager of the technology centre of the Company from September 2005 to December 2007 and the deputy chief engineer of the Company from January 2007 to December 2007, and was appointed as the chief marketing officer of the Company in December 2007.

Chen Mingjun, aged 35, chief financial officer of the Company. Mr. Chen is a senior accountant. Mr. Chen joined ZELRI in August 1996 and has been the head of the financial accounting team and deputy director of the accounting department. Mr. Chen was the general manager of Times Investment Co. from April 2003 to December 2006 and the chief financial officer of New Business Unit of ZELRI from June 2004 to December 2006 concurrently. He served as the deputy general manager of Times Investment from January to July 2007, and was the chief financial officer of Hunan CSR Times Electric Vehicle Co., Ltd (湖南南車時代電動股份有限公司) from August to December 2007. He graduated from the Department of Accountancy of Hunan Institute of Finance and Economics with a bachelor degree in Economics. Mr. Chen was appointed as the chief financial officer of the Company in December 2007.

Directors, Supervisors and Senior Management

Liang Yuguo, aged 46, an assistant to the president of the Company. Mr. Liang joined ZELRI in 1983 and has been the deputy director, director and department head of the Testing Center of ZELRI. He has served as a deputy director and general secretary of the Party Branch of the research and development centre of ZELRI from April 2002 to September 2004. He was the general manager of the New Business Unit of ZELRI from September 2004 to December 2005, assistant to the general manager of the Headquarters Business of ZELRI and the general manager of the New Business Unit of ZELRI from January 2006 to January 2007. Mr. Liang graduated from the Department of Locomotive Electrical Transmission of the Shanghai Railway Academy with a bachelor degree in Engineering in 1983, and obtained a master degree in Engineering from the Department of Traffic Information Engineering and Control of the Central South University in 2002. He graduated from the Zhongnan University of Economics and Law with major in Business Administration in July 2006. Mr. Liang has served as the general manager of the Safety Equipment Business Unit of the Company from February to December 2007, and was appointed as assistant to the president of the Company in December 2007.

Yan Wu, aged 41, secretary of the Board. Senior engineer. Mr. Yan joined ZELRI in 1992. Mr. Yan graduated from Northwestern Polytechnical University with a bachelor degree in Electro-Technology in 1989 and a master degree in Aircraft Navigation and Control in 1992. Mr. Yan served as Head of Technical Standards Department from September 2005 to December 2007, and was appointed as Head of the Investor Relations Department in January 2007. Mr. Yan was appointed as the general secretary of the National Electric Traction Equipment and System Standardization Technical Committee since September 2005. Mr. Yan was appointed as the secretary of the Board in December 2007.

Tang Tuong Hock, Gabriel, aged 55, the qualified accountant and joint company secretary of the Company. Mr. Tang has been a member of the Institute of Chartered Accountants in England and Wales since 1981 and is also a member of the Chartered Association of Certified Accountants in the United Kingdom. Mr. Tang has more than 20 years of experience in accounting and management in various industries. He was appointed as the qualified accountant and joint company secretary of the Company in July 2006.

Corporate Governance Report

The Company has always been dedicated to improving the quality of its management, and to maximizing long-term shareholder value by increasing the Group's accountability and transparency through strict implementation of corporate governance.

I Corporate Governance Practices

The Company places great emphasis on the authority, dependability and prudence of its corporate governance. For the reporting period ended 31 December 2007, in addition to adoption of the code of conduct regarding securities transaction of the directors of the Company as set out in the section headed "Securities Transactions by Directors", the Company has adopted all the relevant provisions contained in CG Code set out in Appendix 14 of the Listing Rules and has complied with all other provisions of the CG Code.

The Board of Directors makes every effort to comply with the CG Code in order to protect and enhance shareholder interest. As the Company continues to grow, in order to ensure compliance with relevant regulations and standards, the Company will monitor and, when necessary, revise its corporate governance policy on an ongoing basis.

In accordance with relevant laws and regulations, the Company has set up a structure in which corporate mechanisms such as shareholders' general meetings, the Board of Directors, special committees under the Board of Directors, the Supervisory Committee and powers of the management check and balance each other. The division of responsibilities between the shareholders' general meeting, the Board of Directors, special committees under the Board of Directors, the Supervisory Committee and the management are distinct, and each of them is assigned with clearly defined responsibilities. The Company will continue to perfect its corporate governance mechanism, exercise discipline in the fulfilment of corporate duties, and strengthen the disclosure of information concerning its operations.

II Securities Transactions by Directors

In compliance with the requirement of the Listing Rules, it was resolved at the ninth meeting of the first term of the Board held on 23 April 2007 that the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules be adopted as the code of conduct for Directors' securities transactions. Prior to that, the Company has not adopted any code of conduct on terms no less exacting than those set out in the Model Code. The main reason is that the listing of the Company's shares took place on 20 December 2006 and none of the Company's securities was in circulation in the market before that date. Notwithstanding that, having made specific inquiries to the Directors, all Directors confirmed that they have complied with the relevant standards in the Model Code during the reporting period.

III Board of Directors

1. Composition of the Board

The Board of Directors consists of ten Directors, among whom Mr. Ding Rongjun is the Chairman of the Board and an executive Director; Mr. Song Yali is the Vice Chairman and a non-executive Director; Mr. Lu Penghu is an executive Director; Messrs. Liao Bin and Ma Yunkun are non-executive Directors; and Messrs. Zhou Heliang, Gao Yucai, Chan Kam Wing, Pao Ping Wing and Tan Xiao'ao are independent non-executive Directors.

During the reporting period, composition of the Board had made some changes on 17 December 2007, as follows: (1) Mr. Liao Bin resigned as the Chairman of the Board but remained as a non-executive Director; (2) Mr. Ding Rongjun resigned as the president of the Company and was appointed as the Chairman of the Board; (3) Mr. Tian Lei resigned as the Vice Chairman of the Board and non-executive Director; (4) Mr.Song Yali was appointed as the Vice Chairman of the Board and a non-executive Director. For further details, please see the announcement in respect of resignations and appointments of directors and supervisors issued on 17 December 2007.

The Company has entered into service contracts with all Directors for an initial term of one or three years. The contracts shall remain valid for a term of three years or for a shorter period as may be decided upon at the re-elections of the Directors at the general meeting. Notice for termination of Directors' service contracts given by any party shall be for a minimum of three months. All Directors will retire at the conclusion of the 2007 annual general meeting and are eligible for re-election. Mr. Zhou Heliang due to his age, will not seek for re-election at the 2007 annual general meeting.

The Directors have strictly complied with their undertakings, and have been honest, trust-worthy and diligent in the performance of their duties. The number of Directors and the composition of the Board comply with relevant laws and regulatory requirements. There is no relationship between the members of the Board (especially between the Chairman and the Chief Executive), including any financial, business, familial or other material relevant relationship.

The Company has received annual confirmation from Messrs. Zhou Heliang, Gao Yucai, Chan Kam Wing, Pao Ping Wing and Tan Xiao'ao of their independence, and considers that they are still independent as of the date of this report.

2. Board Meetings and Directors' attendances at Board Meetings

During the reporting period, the Company held seven Board meetings, of which two were interim Board meetings.

The following is the attendance record of Directors at Board meetings held during the reporting period.

Name	Title	Number of Board meetings that the Director should have attended	Number of Board meetings attended by the Director	Attendance Rate	Remarks
Liao Bin	Chairman of of the Board and Non-Executive Director	7	7	100%	resigned as the Chairman of the Board of the Company at the twelfth meeting of the first term of the Board in December 2007
Ding Rongjun	Chairman and Executive Director	7	7	100%	elected as the Chairman of the Board of the Company at the twelfth meeting first of the term of the Board in December 2007
Tian Lei	Vice Chairman of the Board and Non-Executive Director	5	5	100%	resigned as a Director at the twelfth meeting of the first term of the Board in December 2007
Song Yali	Vice Chairman and Non-Executive Director	2	2	100%	elected as a Director of the Company at the twelfth meeting of the first term of the Board in December 2007
Lu Penghu	Executive Director	7	7	100%	
Ma Yunkun	Non-Executive Director	7	7	100%	Attended the eleventh meeting of the first term of the Board in August 2007 by proxy
Zhou Heliang	Independent Non-Executive Director	7	7	100%	Attended the ninth meeting of the first term of the Board in April 2007 and the twelfth meeting of the first term of the Board in December 2007 by proxy.
Gao Yucai	Independent Non-Executive Director	7	7	100%	Attended the twelfth meeting of the first term of the Board in December 2007 by proxy.
Chan Kam Wing	Independent Non-Executive Director	7	7	100%	
Pao Ping Wing	Independent Non-Executive Director	7	7	100%	
Tan Xiao'ao	Independent Non-Executive Director	7	7	100%	

3. Operation of the Board

The Board of Directors is responsible to the shareholders' general meetings in relation to the leadership and management of the Company. The Board convened regular and interim meetings in accordance with legal procedures and complied strictly with relevant laws, legal regulations and the Articles in the exercise of its authority, with an emphasis on protecting the interests of the Company and its shareholders.

All Directors are given not less than 10 days' advance notice of regular Board meetings and are given reasonable advance notice of Board meetings other than regular meetings.

The secretary to the Board records and prepares documents concerning all matters that are discussed during the Board meetings. Draft minutes of every Board meeting are circulated to all Directors for their review. After finalization, the Board minutes are signed by all Directors who have attended the meeting, the secretary to the Board and the minutes recording person. These documents are permanently kept as an important record of the Company on the Company's premises.

The Board of Directors is responsible to the shareholders and it principally exercises the following authorities:

(1) Convening shareholders' general meetings and reporting on its work at shareholders' general meetings;

(2) Executing resolutions of the shareholders' general meetings;

(3) Making decisions on operational plans and investment schemes;

(4) Formulating annual financial budget and final accounts;

(5) Formulating profit distribution scheme and scheme for loss compensation;

(6) Proposing schemes for major investments, major acquisitions or disposals, mergers, divisions or dissolution of the Company; and

(7) Proposing amendments to the Articles.

All Directors have access to the advice and services of the company secretary. The Company provides all Directors with the necessary information and data to enable them to make scientific, timely and prudent decisions. Any Director can request the Chief Executive, or, through the Chief Executive, request the Company's relevant department to provide him with any necessary information to enable him to make scientific, timely and prudent decisions. If any of the independent Directors consider necessary, an independent institution can be engaged to provide independent opinions to assist his decision-making. The expenses of engaging such an independent institution will be borne by the Company.

Director(s) with a vested interest in any transaction cannot participate in the vote that the Board takes with respect to that particular transaction. If a resolution cannot be passed due to the Director(s) exclusion from voting, the resolution will be submitted directly to the shareholders' general meeting for consideration by the shareholders.

4. Specialised Committees of the Board

The Company has established separate strategy, audit, risk management and remuneration committees. The function of each specialised committee is to study pertinent issues in its area of expertise and to provide opinions and suggestions for consideration by the Board. The Company has not yet set up a nomination committee.

a Strategy committee

The Company's strategy committee was established in October 2005. It currently consists of four Directors, one of whom is an independent non-executive Director. The members of the strategy committee are Messrs. Liao Bin, Ding Rongjun, Lu Penghu and Gao Yucai. Mr. Liao Bin is the strategy committee's chairman.

The main responsibilities of the strategy committee are:

(1) to provide study reports to the Board in respect of governmental policies and industrial trends;

(2) to conduct strategic research concerning the Group;

(3) to review and assess major investment and financial strategies; and

(4) to review major capital expenditure projects.

The strategy committee convened two meetings during the reporting period. Main issues such as implementation of the annual strategy, summarization of annual investment, annual investment plan and feasibility reports on major investment projects were discussed at such meetings.

b Audit committee

The Company's audit committee was established in October 2005. It currently consists of six Directors, five of whom are independent non-executive Directors. The committee's members are Messrs. Chan Kam Wing, Pao Ping Wing, Zhou Heliang, Gao Yucai, Tan Xiao'ao and Ma Yunkun. Mr. Chan Kam Wing is the audit committee's chairman.

The main responsibilities of the audit committee are: to consider and supervise financial reporting processes and internal control procedures, to exercise its authority to guide and supervise internal audits and to make suggestions about the appointment or change of external audit firm.

The audit committee held two meetings during the reporting period. These meetings mainly discussed issues concerning the Company's annual results, half yearly results, connected transactions, internal audit and internal controls related issues, etc. Following is the record of attendance of committee members.

Committee member	Attendance rate for meetings held during the year ended 31 December 2007
Chan Kam Wing	2/2
Pao Ping Wing	*
Zhou Heliang	2/2
Gao Yucai	2/2
Tan Xiao'ao	2/2
Ma Yunkun	2/2

*Note: Mr. Pao Ping Wing was elected as a member of the audit committee at the twelfth meeting of the first term of the Board held on 17 December 2007.

The Company has established an audit division with internal audit functions. The audit division is under the supervision of the audit committee.

c Risk management committee

The Company's risk management committee was established in June 2006. It currently consists of three Directors, two of whom are independent non-executive Directors. The members of the risk management committee are Messrs. Song Yali, Chan Kam Wing and Tan Xiao'ao. Mr. Song Yali is the risk management committee's chairman.

The main responsibility of the risk management committee is to formulate, assess and revise risk management strategies.

The risk management committee held two meetings during the reporting period. At such meeting, the committee mainly discussed issues concerning risk management , coporate governance reporting and internal control.

d Remuneration committee

The Company's remuneration committee was established in October 2005. It currently consists of five Directors, three of whom are independent non-executive Directors. The committee members are Messrs. Pao Ping Wing, Ding Rongjun, Lu Penghu, Tan Xiao'ao, and Zhou Heliang. Mr. Pao Ping Wing is the remuneration committee's chairman.

The main responsibilities of the remuneration committee are to consider the remuneration and benefits paid to Directors and senior management and to make recommendations to the Board about any related adjustments.

During the reporting period, the Company convened three remuneration committee meetings. Remuneration of the Directors and the senior management and the allowance scheme of the Directors and supervisors were the main issues discussed at such meetings.

IV Chairman and Chief Executive

The offices of the Chairman and the Chief Executive of the Company are held by Mr. Ding Rongjun and Mr. Lu Penghu, respectively. The division of responsibilities between them has been clearly established and set out in writing. The Chairman is responsible for running the Board and chairing Board meetings whereas the Chief Executive is responsible for the Company's day-to-day operations.

According to the Articles, the Chairman exercises the following authorities:

(1) To preside over shareholders' general meetings, and to convene and preside over Board meetings;

(2) To monitor the implementation of the Board's resolutions;

(3) To sign securities issued by the Company; and

(4) Other authorities conferred on him by the Board.

The Chief Executive is responsible to the Board of Directors. The Chief Executive and the management team under his leadership have the following authorities:

(1) Management of the Company's manufacturing and sales operations and the implementation of the Board's resolutions;

(2) Implementation of the Company's annual operational plan and investment strategies;

(3) Establishment of the Company's internal management mechanisms;

(4) Establishment of the Company's basic management systems;

(5) Formulation of the Company's basic regulations;

(6) Proposing the appointment and dismissal of deputy chief executive, chief supervisor and assistant to the chief executive of the Company;

(7) Appoint or dismissing management staff, except those who should be appointed or dismissed by the Board; and

(8) Making proposals concerning wages, benefits, bonuses and penalties for employees, and deciding on the promotion or demotion, increases or decreases in salary, appointment, employment, termination of employment or dismissal of employees.

V Non-executive Directors

According to the Articles, the Company's non-executive Directors are elected at shareholders' general meetings for a term of three years. Upon retirement, non-executive Directors are eligible for re-election.

VI Nomination of Directors

Directors are elected at the shareholders' general meetings in accordance with the Articles. Written notice of intention to nominate a candidate for the post of Director and the candidate's agreement to be nominated must be given to the Company after the date of the notice of the annual general meeting and at least seven days prior to the convening of the annual general meeting.

VII Remuneration of the Auditors

During the year ended 31 December 2007, the Company appointed Ernst & Young to provide annual results auditing and interim results review services to the Company. Ernst & Young also provided quarterly auditing service for connected transactions of the Company. Details of the external auditors‘ remuneration of the Company are as follows:

Service provided:	For the year ended 31 December 2007 (RMB' 000)
Annual results auditing service	3,600
Interim results review service	800
Quarterly auditing service for connected transactions	420

VIII Directors' Responsibilities in respect of the Financial Reports

The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2007.

The Directors also confirm that there were no major unexpected events or conditions that would have a significant impact on the continuity of the Company's operations.

IX Internal Controls

The Directors are responsible for maintaining a reliable and effective internal control system. The Company has established an internal audit department. An audit committee and a risk management committee have also been established and are responsible to the Board. The Directors are in a position to supervise, assess and improve the Company's internal controls at all levels of management, so as to ensure that the Company can withstand changes in its operations and other external influences on its financial, operational and risk management, in order to safeguard the Company's assets and promote shareholders' interests.

During the reporting period, the Company further enhanced its internal control system, strengthened awareness on risk management, regulated work flows, and continued to engage an independent international risk consultancy firm to advise the Company on internal audit and risk management as to enhance risk management and review on the internal controls system from time to time.

In order to cope with the changes in market conditions and needs for business development, the Company conducted adjustments to its organisation structure during the reporting period. With respect to the above changes, the Company's internal control review team conducted further review and obtained verifications in relation to the Company's core business process flows such as capital management, investments, sales, inventory, procurement, connected transactions, financial settlements and reporting. Appropriate amendments were made to the process documentation, flow-charts and risk control matrix. Defects discovered during the review were reported and improvement plans were proposed.

X Compliance with the Non-competition and Indemnity Agreements by the Controlling Shareholders

ZELRI, the controlling shareholder of the Company, and the CSRG, the ultimate controlling shareholder (hereinafter referred to as "Controlling Shareholders"), have each submitted their "explanations regarding the implementation of the non-competition and indemnity agreement in 2007" to the Company respectively, declaring that they had complied with the terms of the said agreements. The independent non-executive Directors have also reviewed the implementation of the non-competition and indemnity agreements by the Controlling Shareholders in 2007. The independent non-executive Directors consider that the Parent Group and the CSRG Group had complied with the terms of the non-competition and indemnity agreements. The respective businesses of the Parent Group and the CSRG Group were independent of the Group's business, employing different technologies, have different customers, which will not result in any competition with the Group. The Directors were able to uphold the interests of the Company and its shareholders, and operated and managed the Company's business independently.

XI Relationship with Investors

The Company places great emphasis on communication with investors and has established a specialised department to handle affairs regarding relationship with investors. When investors come to visit the Company, special reception and site visit will be arranged in this regard. The Company actively participates in various meetings concerning relationship with investors and organises the management to conduct overseas roadshows, so as to enable investors to have better understanding about our business strategy and development plan.

During the reporting period, The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules and the Articles. We have reported to our shareholders and investors through various formal channels, which include (1) publishing interim and annual reports; (2) holding annual general meeting or extraordinary general meeting to provide a platform for shareholders to express their opinions and their communication with the Board; (3) holding press conference and investors conferences from time to time; (4) organising the management to conduct overseas roadshows; (5) publishing announcements on the website of the Stock Exchange and the Company; and (6) responding to the queries from shareholders and investors in a timely manner.

The Company will continue to strive to enhance our relationship with investors, so as to further enhance our transparency.

Directors' Report

The Board of Directors of the Company are pleased to present the Directors' Report and audited financial statements of the Company and the Group for the year ended 31 December 2007.

The Company's business activities

The Group is a leading train-borne electrical system provider and integrator in the PRC railway industry. The Group is also engaged in developing, manufacturing and selling train power converters, auxiliary power supply equipment and control systems for urban rail systems. In addition the Group designs, manufactures and sells electrical components for the PRC railway industry, the urban rail industry and non-railway applications.

There have been no significant changes in the nature of the Group's key operations during the reporting period.

Results and dividends

Results of the Group for the year ended 31 December 2007, prepared in accordance with International Financial Reporting Standards ("IFRSs"), are set out on page 41 to page 108 of this annual report.

Based on the lower of the Company's net profit calculated under Generally Accepted Accounting Principles ("GAAP") of PRC and IFRSs, the Company has distributable profits (before the proposed final dividend) of RMB 210,090,000 as at 31 December 2007. The Board of Directors of the Company proposed distribution of a cash dividend of RMB0.145 per share (including applicable tax) for the year. The proposed dividend to be distributed is subject to the approval of the shareholders at the annual general meeting to be held on 27 June 2008.

The dividends is payable to shareholders whose names appear on the register of members at the close of business on 27 May 2008. The Company's share register will be closed from 28 May 2008 to 27 June 2008 (both days inclusive), during which period no transfer of shares will be registered.

In respect of the distribution of dividends, dividends for domestic shares will be distributed and paid in Renminbi, while dividends for H shares will be declared in Renminbi and paid in Hong Kong dollars. (The Hong Kong dollars equivalent shall be calculated at the average middle exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China five working days prior to the declaration of dividend at the annual general meeting to be held on 27 June 2008).

Use of proceeds from the Company's initial public offering

The Company issued 414,644,000 H shares (including H shares issued via the exercise of the over–allotment option) in the initial public offering in December 2006. The issue price was HK$5.30 per share, the proceeds amounted to approximately HK$2,197,613,000 (equivalent to RMB2,209,968,000). The net proceeds from the initial public offering after deducting share issuing expenses amounted to RMB2,109,852,000. All the proceeds were received by the Company on 28 December 2006. As at 31 December 2007, approximately RMB708.6 million has been applied to intended uses as set out in the Company's prospectus, details of which are set out below:

(1) Approximately RMB374.7 million for investments in train power converters, auxiliary power supply equipment and control systems;

(2) Approximately RMB58 million for investments in train operation safety equipment;

(3) Approximately RMB27.6 million for investments in importation of technology and development of a new generation of railway maintenance vehicles;

(4) Approximately RMB78 million for investments in large size power semi-conductor devices;

(5) Approximately RMB36.3 million for investments in sensors and related products;

(6) Approximately RMB66 million for other areas; and

(7) Approximately RMB68 million for supplementing working capital.

Financial Highlights

Property, plant and equipment

Details of the changes in the property, plant and equipment of the Company and the Group during the year are set out in note 13 to the financial statements.

Borrowings

Details of the Group's borrowings as at 31 December 2007 are set out in note 29 to the financial statements.

Share capital

Details of the changes in the share capital of the Company during the year are set out in note 32 to the financial statements.

Pre-emptive rights

There are no provisions for pre-emptive rights under the Companies Law of the PRC nor in the Company's articles of association which oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

Purchase, redemption or sale of listed securities of the Company

During the year, there was no purchase, redemption or sale of any listed securities of the Company by the Company or any of its subsidiaries.

Reserves

Details of the changes in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements and the consolidated statement of changes in equity respectively.

Distributable reserves

As at 31 December 2007, calculated in accordance with relevant regulations, the Company's distributable reserves amounted to approximately RMB 210,090,000, of which approximately RMB 157,217,000 has been proposed to be paid as final dividend for the year.

Major customers and suppliers

The percentage of sales attributable to the Group's five largest customers during the year was approximately 49.6% of the Group's total sales.

CSR Sifang Co., Ltd. is the largest customer of the Group, and the percentage of the Group's sales to CSR Sifang Co., Ltd. during the year was approximately 32.6% of the Group's total sales. CSR Sifang Co., Ltd. is owned as to 90.04% by CSR.

CSR Zhuzhou is one of the Group's five largest customers, and is owned as to 16.31% by the Parent Company and is beneficially owned as to 98.37% by CSR.

Kunming China Railway is also one of the Group's five largest customers. Mr. Ma Yunkun, a non-executive Director, is the chairman of the board and general manager of Kunming China Railway.

Save as disclosed above, none of the Directors, their associates or those shareholders so far as is known to the Directors having more than 5% interest in the share capital of the Company, has any interest in any one of the Group's five largest customers during the year.

During the year, purchases from the Group's five largest suppliers in aggregate represent approximately 31.2% of the total purchases of the Group during the year.

Shiling is the Group's largest supplier. The Group's purchases from Shiling represent approximately 16.8% of the total purchases during the year. Shiling is owned as to 50% by the Company. Mr. Ding Rongjun, the Chairman and Executive Director of the Company, is the Chairman of the board of Shiling.

Kunming China Railway is one of the Group's five largest suppliers. Mr. Ma Yunkun, a Non-Executive Director of the Company, is the chairman of the board and general manager of Kunming China Railway.

Save as disclosed above, none of the Directors, their associates or shareholders who, as known to the Directors, are interested in 5% or more of the share capital of the Company, has any interests in any one of the five largest suppliers of the Group during the year.

Directors and Supervisors

The Directors and supervisors of the Company during the year and up to the date of this report were:

Executive Directors

Ding Rongjun - Chairman of the Board

Lu Penghu - President

Non-executive Directors

Liao Bin

Song Yali - Vice Chairman of the Board (appointed on 17 December 2007)

Ma Yunkun

Tian Lei (resigned on 17 December 2007)

Independent non-executive Directors

Zhou Heliang

Gao Yucai

Chan Kam Wing, Clement

Pao Ping Wing

Tan Xiao'ao

Supervisors

Zhang Liqiang - Chairman of the Supervisory Committee

Liu Chunru - independent supervisor (resigned on 20 April 2008)

He Hongqu - independent supervisor (resigned on 17 December 2007)

Pang Yiming

Liu Ke'an (appointed on 17 December 2007)

Jiang Yi (resigned on 17 December 2007)

Biographies of Directors and supervisors of the Company

Details of the biographies of the Directors and supervisors of the Company are set out on page 12 to page 14 of this annual report.

Service contracts with Directors and supervisors

The Company has entered into service contracts with all Directors and supervisors for an initial term of one or three years which shall continue for a term of three years or for a shorter period as may be decided upon at the re-elections of the Directors and supervisors respective at the general meeting or the employee representative committee meeting of the Company as the case may be. Notice for termination of service contracts given by any party shall be for a minimum of three months. All Directors and supervisors will retire at the conclusion of the 2007 annual general meeting and all Directors and supervisors except Mr. Pang Yiming and Mr. Liu Ke'an are eligible for re-election thereafter. Mr. Pang Yiming and Mr. Liu Ke'an, being the employee representative supervisors are eligible for re-election at the employee representative committee meeting of the Company. Mr. Zhou Heliang, due to his age, will not seek for re-election at the 2007 annual general meeting.

None of the Directors nor supervisors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Remuneration of Directors and supervisors

Remuneration of Directors and supervisors should be approved by the shareholders in general meetings. Other emoluments are fixed by the Board taking into consideration the Directors' duties and responsibilities and the Company's performance which pursuant to article 140 of the Articles is subject to approval of the shareholders at the general meeting. Details of Directors' and supervisors' emoluments are disclosed in note 8 to the financial statements.

Directors' and supervisors' interests in contracts

Save as otherwise disclosed, during the year, none of the Directors nor supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its Parent Company or any of its subsidiaries was a party.

Interests and short positions of Directors, supervisors and the chief executive in the shares of the Company

As at 31 December 2007, none of the Directors, supervisors, the chief executive of the Company or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or any interests or short positions in the shares required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or any personal, family, corporate or other interests or short positions required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors.

Directors' and supervisors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Directors, supervisors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

Structure of share capital

The Company's share capital structure as at 31 December 2007 was as follows:

		As at 31 December 2007	
Shareholder	Type	Number of shares	% of issued share capital
ZELRI	Domestic share	589,585,699	54.38%
Qishuyan Works	Domestic share	9,380,769	0.87%
New Leap	Domestic share	9,380,769	0.87%
CSR Zhuzhou	Domestic share	10,000,000	0.92%
Kunming China Railway	Domestic share	9,800,000	0.90%
Shares in public circulation	H share	456,108,400	42.06%
Total		1,084,255,637	100%

Substantial shareholders

Interests and short positions in the shares and relevant underlying shares of the Company or any of its associated corporations pursuant to the disclosure requirements in Divisions 2 and 3 of Part XV of the SFO as at 31 December 2007 were as follows:

Name of substantial shareholder	Number of shares held	Capacity	% of domestic share share capital	% of H share share capital	% of issued share capital
ZELRI	589,585,699 (Long position)	Beneficial owner	93.86%	—	54.38%
CSRG (Note 1)	618,347,237 (Long position)	Interest of controlled corporation	98.43%	—	57.03%
UBS AG	38,066,552 (Long position)	Beneficial owner/ Interest of controlled corporation	—	8.35%	3.51%
	28,492,000 (Short position)	Beneficial owner/ Person having a security interest in shares	—	6.25%	2.63%
Mirae Asset Global Investments (Hong Kong) Limited	28,996,000 (Long position)	Investment manager	—	6.36%	2.67%
BNP Paribas Asset Management	27,224,395 (Long position)	Investment manager	—	5.97%	2.51%
The Hamon Investment Group Pte Limited	23,844,000 (Long position)	Investment manager	—	5.23%	2.20%
The Northern Trust Company	26,734,000 (Long position, Lending pool)	Approved lending agent	—	5.86%	2.47%

Note:

(1) CSRG is a state-owned enterprise, it acted as a promoter to establish CSR on 28 December 2007 and held 100% of its shareholding directly and indirectly. CSRG is directly interested as to 100% in the registered capital of Qishuyan Works. CSR is interested as to 100% in the registered capital of ZELRI and New Leap, and is directly and indirectly interested as to 98.37% in the registered capital of CSR Zhuzhou. Accordingly, CSRG is deemed under the SFO to be interested in the shares held by each of ZELRI, Qishuyan Works, New Leap and CSR Zhuzhou.

Connected transactions and continuing connected transactions

During the reporting period, the Company and the Group had the following connected transactions and continuing connected transactions, particulars of which have been disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

Connected transactions

On 10 August 2007, the Company and the Parent Group entered into an assets transfer agreement pursuant to which the Parent Group agreed to transfer to the Company all its title, interests and rights in certain assets at the price determined on the basis of the valuation conducted by an independent professional PRC valuer. The assets comprise the production assets of the Company which include machinery, equipment, transformers, installation systems and other ancillary installation systems used by the Company for experiment, inspection, examination and product testing purposes. The transfer of assets was completed on 30 September 2007 and a total consideration of RMB 57,647,811 was paid by the Company to the Parent Group. For more details, please refer to the Company's connected transaction announcement dated 10 August 2007.

On 15 November 2007, the Company entered into a share transfer agreement with Times Investment and four independent individuals for the purchase of the entire equity interest in Times Equipment. Pursuant to the share transfer agreement, Times Investment and the four independent individuals agreed to sell respectively 96.67%, 1.33%, 0.67%, 0.67% and 0.67% equity interests in Times Equipment at the valuation price. The purchase price was determined on the basis of the valuation conducted by an independent professional PRC valuer. The equity transfer was completed on 14 December 2007 and an amount of RMB 3,500,755.75 was paid by the Company to Times Investment and the four independent individuals. Upon completion, Times Equipment became the wholly-owned subsidiary of the Company. For more details, please refer to the Company's connected transaction announcement dated 15 November 2007.

Continuing connected transactions

Transactions conducted between the Group and the following parties constitute continuing connected transactions of the Company after the listing of the H shares of the Company under the Listing Rules.

The Directors, including the independent non-executive Directors, have reviewed and confirmed that the continuing connected transactions set out below have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties;

(3) in accordance with the terms of the agreements governing the relevant transactions, and on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

(4) within the annual cap amounts of 2007 as set out in the prospectus.

Details of the Group's continuing connected transactions are as follows:

1) Continuing connected transactions exempted from reporting, announcement and independent shareholders' approval requirements

The following transactions constituted continuing connected transactions of the Company under Rule 14A.33(3) of the Listing Rules and thus are exempted from the reporting, announcement and independent shareholders' approval requirements under Chapter 14 of the Listing Rules.

(a) On 1 January 2005, CSR Zhuzhou (as lessor) signed a lease with the Company (as lessee) for leasing a property and certain equipment. CSR Zhuzhou agreed to let to the Company a total area of 4,779.18m^2 of factory premises and related equipment for a term of three years from 1 January 2005 to 31 December 2007 at an annual lease rental of RMB126,700 (excluding management fees and utility charges). The Company has paid CSR Zhuzhou RMB126,700 for the year ended 31 December 2007.

(b) On 20 January 2006, the Parent Company (as a franchise grantor) signed a trademark licence agreement with the Company. The Parent Company agreed to franchise the trademark "TEG & device" to the Company and its subsidiaries on a non-exclusive basis at an annual franchise fee of RMB10,000 for a validity period up to 2012 or 2015 (subject to renewal) with effect from 1 January 2006. The Company has paid the Parent Company franchise fees of RMB10,000 for the year ended 31 December 2007.

2) Continuing connected transactions exempted from independent shareholders' approval requirement but subject to reporting and announcement requirements ("Exempt Transactions")

The following transactions constituted continuing connected transactions of the Company under Rule 14A.34 of the Listing Rules and thus are exempted from the requirement to obtain independent shareholders' approval, but are subject to the reporting and announcement requirements. The Stock Exchange has granted the Company a waiver from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules.

(a) The Company signed a lease on 29 March 2006 as the lessor with the Parent Group as the lessee under which the Company agreed to let to the Parent Group four stories of research administrative building with a total area of 6,960m^2 for a term of three years from 1 January 2006 to 31 December 2008 at an annual lease rental of RMB1,867,184. The Company had received from the Parent Group RMB1,867,184 for the year ended 31 December 2007.

(b) The Parent Group signed an equipment leasing agreement on 25 March 2006 as the lessor with the Company as the lessee. A supplemental agreement was signed on 30 May 2006. The Parent Group agreed to lease certain testing equipment to the Company for three years from 1 January 2006 to 31 December 2008 at an annual lease rental of RMB 9,025,072. Subsequent to the entering of the assets transfer agreement with the Parent Group on 10 August 2007, the leasing agreement was terminated upon completion of the transfer of assets on 30 September 2007. The Company had paid the Parent Group rental of RMB 6,768,803.97 for the year ended 31 December 2007.

3) Non-exempt continuing connected transactions ("Non-exempt Transactions")

The following transactions constituted non-exempt continuing connected transactions of the Company and thus are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.45 to 14A.48 of the Listing Rules. The Stock Exchange has granted the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements in respect of these transactions.

(a) On 4 December 2006, the Company signed a general service agreement with the Parent Company. The Parent Company agreed to provide the Company and its subsidiaries general services for the period from 20 December 2006 (the Company's listing date) to 31 December 2008. In November 2007, Times Hotel of CSR Zhuzhou Electric Locomotive Research Institute was converted into a limited liability company and renamed as Zhuzhou Times Hotel Company Limited（株洲時代賓館有限責任公司）, all shareholders of which are individuals who are independent third parties of the Company. Thus, Zhuzhou Times Hotel Company Limited ceased to be a connected party of the Company. Accordingly, subsequent transactions between the Company and Zhuzhou Times Hotel Company Limited did not constitute connected transactions of the Company. For the year ended 31 December 2007, the Company has paid service fees of RMB4.3 million to the Parent Company.

(b) On 4 December 2006, the Company signed a mutual supply agreement with the Parent Company under which the Company and its subsidiaries agreed to supply certain electrical components to the Parent Group, while the Parent Company and its subsidiaries agreed to supply mechanical and electro-mechanical parts and components to the Group. The agreement is valid for three years from 20 December 2006 (the Company's listing date) to 31 December 2008.

    For the year ended 31 December 2007, the amount payable by the Group to the Parent Group for the mutual supply services for the year amounted to RMB63.4 million (excluding amount payable to Shiling by the Company). The amount payable by the Parent Group to the Group for the mutual supply of services for the year amounted to RMB22.2 million.

(c) On 4 December 2006, the Company signed a mutual supply agreement with CSRG under which the Company and its subsidiaries agreed to sell train-borne electrical systems and electrical components of different segments to the CSRG Group while CSRG and its subsidiaries (excluding the Parent Company and its subsidiaries) agreed to supply certain parts and components for the production of train-borne electrical systems to the Group. The agreement is valid for three years from 20 December 2006 (the Company's listing date) to 31 December 2008.

    For the year ended 31 December 2007, the amount payable by the Group to the CSRG Group for the mutual supply services amounted to RMB21.3 million. The amount payable by the CSRG Group to the Group for mutual supply services amounted to RMB610.5 million.

(d) On 4 December 2006, Kunming China Railway and the Company entered into a mutual supply agreement under which the Company and its subsidiaries agreed to supply certain electrical control systems for large railway maintenance vehicles to Kunming China Railway and Kunming China Railway also agreed to supply certain parts and components for large railway maintenance vehicles to the Group for a period of three years from 20 December 2006 (the Company's listing date) to 31 December 2008. Kunming China Railway, as licensee, entered into a technology license agreement with an European company, as licensor, in relation to the license of the technology for large railway maintenance vehicles. Kunming China Railway has ultimately formed a consortium (implemented by the Group) with the Parent Company and three other companies for the manufacture of large railway maintenance vehicles. With respect to each type of large railway maintenance vehicle, the parties agreed on the percentage they will each receive from the sales income ("revenue percentage"). Each party of the consortium is obligated to procure parts and components from the licensor (through Kunming China Railway) in an amount equal to the sales income from relevant types of product multiplied by the procurement percentage and the revenue percentage.

For the year ended 31 December 2007, fees payable by the Group to Kunming China Railway for mutual supply services amounted to approximately RMB38.4 million. Fees payable to the Group by Kunming China Railway for mutual supply services amounted to approximately RMB106.1 million.

(e) Since the Parent Group holds 50% equity interest in Shiling and prior to the completion of the Company's acquisition of 50% equity interest in Shiling on 30 July 2007, Shiling was considered as a connected party of the Company. According to the subsisting contracts for 200 km/h EMU projects and the original equipment manufacturing and packaging services of certain city railway projects, the Company continued to purchase certain imported electronic parts and components from Shiling in 2006-2007.

For the period ended 30 July 2007, the amount payable by the Company to Shiling for supply services it provided to the Company amounted to RMB104.6 million.

Pursuant to Chapter 14A.38 of the Listing Rules, the Board of Directors has engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The independent non-executive Directors have reviewed the continuing connected transactions and the report of the auditors and have confirmed that the transactions have been entered into by the Group in the ordinary course of its business, on terms no less favourable than the terms available to and from independent third parties, on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole and have not exceeded the exempted cap for 2007 as disclosed in the Company's prospectus dated 8 December 2006.

Mechanism for protecting minority interests

To protect minority interests, the Company has (inter alia) established and implemented the following governance measures:

(i) Interested directors have to declare their respective interests, and waive their rights to attend Board meetings and abstain from voting in respect of the connected transactions they are interested in. Accordingly, Messrs. Liao Bin, Ding Rongjun and Song Yali waived their rights to attend the Board meetings and abstained from voting in respect of the connected transactions between the Company and the Parent Group. Mr. Ma Yunkun waived his rights to attend the Board meeting and abstained from voting in respect of connected transaction between the Company and Kunming China Railway.

(ii) An independent professional management team of the Group responsible for negotiating and reviewing the terms of transactions with the suppliers and customers (including the Parent Group and the CSRG Group) has been established. The members of the management team include the staff of the Group with relevant techniques and sales expertise, and the scope of duties of the management team enables it to make independent business judgments. The management team reports to the Board, while the Board is accountable to the Company and the shareholders as a whole.

(iii) The Company's auditors have provided quarterly reports to the independent non-executive Directors on all transactions conducted between the Company and the Parent Group/the CSRG Group/Kunming China Railway.

(iv) When making purchases, the Group has endeavoured to obtain tenders or quotations from a number of independent suppliers, and select successful biders (where applicable) based on objective standards such as the price and quality of products, delivery schedule and services.

(v) Subject to (i) above, all independent non-executive Directors have attended the Board meetings for deciding whether the Group should conduct special transactions with the Parent Group or the CSRG Group.

(vi) The terms for the supply and purchase arrangements entered into between the Group and the Parent Group or the CSRG Group are subject to quarterly reviews by the independent non-executive Directors, and opinions regarding such transactions are disclosed by the Company to shareholders by way of announcements. Independent non-executive Directors may request an independent party having at least 10 years experience in the locomotive manufacturing industry to participate in assessing the terms of the sales and purchases agreements, and to provide their findings to the independent non-executive Directors.

Non-competition and indemnity agreements:

The Company has signed non-competition and indemnity agreements with the Parent Group and the CSRG Group on 30 November 2006. The Parent Group and the CSRG Group respectively undertake not to carry on businesses that are in competition with the Company's businesses.

The independent non-executive Directors have reviewed the compliance issue of the non–competition and indemnity agreements with the Parent Group and the CSRG Group for 2007, and reviewed relevant information provided by the Parent Group and the CSRG Group. The independent non-executive Directors were of the opinion that the Parent Group and the CSRG Group had complied with the relevant terms of the non–competition and indemnity agreements in 2007. The Parent Group and the CSRG Group carried on their own businesses independent of the Company's businesses, each owning different technology applications and have different customers, which do not cause any competition with the Company. The Board of Directors is able to operate and manage the Company's businesses independently for the Company's and its shareholders' interests as a whole.

Sufficiency of public float

According to publicly available information and as far as the Directors were aware, as at the date of this report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

Post Balance Sheet Events

Details of the Group's post balance sheet events are set out in note 41 to the financial statements.

Taxation

For the year ended 31 December 2007, no foreign shareholder who is non-PRC resident is liable to individual or enterprise income tax, capital gains tax, stamp duty or estate duty of the PRC in relation to their holding of H shares of the Company. Shareholders are urged to consult their tax advisers regarding the applicable PRC and Hong Kong tax laws and other tax consequences of owning and disposing of H shares of the Company.

Auditors

The financial statements for the year have been audited by Ernst & Young, and a resolution will be put forward at the forthcoming annual general meeting to re-appoint Ernst & Young as the Company's auditors.

On behalf of the Board

Ding Rongjun
Chairman

Zhuhai, PRC
21 April 2008

Supervisory Committee's Report

During the reporting period, pursuant to the PRC Company Law, the Articles, the Listing Rules and the Rules of Meeting of the Supervisory Committee, members of the supervisory committee performed their duties prudently and effectively with respect to the supervision of the Company's operations and business activities in accordance with applicable rules and regulations so as to safeguard shareholders' and the Company's interests.

I. Meetings of the supervisory committee held during the reporting period

1. During the year, the Company has held three supervisory committee meetings. The notices, convening, holding and resolutions of the meetings were in compliance with the requirements of the relevant laws and regulations and the Articles. Areas of review mainly include the work report of the 2006 Supervisory Committee of the Company, the 2006 financial report, the 2006 annual report, the 2007 interim report, connected transactions and changes of members of the Supervisory Committee.

2. During the year, members of the supervisory committee attended all general meetings and Board meetings of the Company in person or by ways of telecommunication.

II. Independent opinion of the supervisory committee on certain issues in 2007

1. The Company carried on its operations lawfully

In 2007, in accordance with applicable laws and regulations, the supervisory committee reviewed the Company's shareholders' meeting, procedures adopted in the convening of directors' meetings, resolutions passed, policy-making procedures, results of voting, implementation of resolutions of shareholders' meeting by Directors, the performance of duties of senior management and the management of the Company. The supervisory committee believes that the Directors and senior management of the Company had seriously performed their responsibilities in a lawful manner. During the reporting period, no breaches of law or damaging actions to the Company or the interests of shareholders were found.

2. Financial reports give a true and accurate view

The supervisory committee had reviewed the Group's financial system and financial situations carefully. The supervisory committee considers the Group's 2007 financial reports to be true and accurate and present the financial situations and operating results objectively, and that the audit opinion and other relevant comments made by Ernst & Young are also true and fair.

3. Use of proceeds

There were no deviations in the use of proceeds from what was disclosed in the Company's prospectus.

4. Connected transactions

The supervisory committee considers that transactions between the Group and the Parent Group, the CSRG Group, Kunming China Railway, during the year were entered into in the ordinary and usual course of business. The various transactions were on the principles of openness, fairness and reasonableness and were entered into in the interests of the Group and the shareholders as a whole. After its review, the supervisory committee found that the Group's transactions in 2007 were in compliance with the relevant laws and regulations of the State and had not discovered any harm done to the Company's and shareholders' interest by means of connected transactions, and the total value of connected transactions was below the limit approved by the Stock Exchange.

5. The implementation of non-competition agreements

The supervisory committee is of the opinion that during the year, the Parent Group and the CSRG Group had complied with the terms of non-competition and indemnity agreements, performed their undertakings, and had not entered into businesses in competition with the Group's businesses.

6. The implementation of resolutions of the annual general meeting

During the year, members of the Supervisory Committee attended seven Board meetings and two shareholders' meetings. There were no objections to the various reports and resolutions submitted by the Board for consideration at the shareholders' meetings. The Board of Directors had seriously carried out resolutions of the shareholders' meeting.

Zhang Liqiang
Chairman of the Supervisory Committee

21 April 2008

Independent Auditors' Report

To the shareholders of Zhuzhou CSR Times Electric Co., Ltd.
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the financial statements of Zhuzhou CSR Times Electric Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 43 to 108, which comprise the consolidated and company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of the financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independent Auditors' Report

Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
18th Floor
Two International Finance Centre
8 Finance Street
Central
Hong Kong
21 April 2008

Consolidated Income Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
REVENUE	5	**1,541,804**	1,255,926
Cost of sales		**(865,480)**	(640,377)
Gross profit		**676,324**	615,549
Other revenue and gains	5	**85,229**	64,473
Selling and distribution costs		**(120,042)**	(118,657)
Administrative expenses		**(277,225)**	(224,780)
Other operating expenses, net		**(31,707)**	(19,572)
PROFIT FROM OPERATIONS		**332,579**	317,013
Finance costs	7	**(3,169)**	(14,352)
Share of loss of an associate		**—**	(80)
Share of profit of a jointly-controlled entity	17	**15,501**	—
PROFIT BEFORE TAX	6	**344,911**	302,581
Tax	9	**2,566**	(313)
PROFIT FOR THE YEAR		**347,477**	302,268
Attributable to:			
Equity holders of the parent		**347,389**	296,771
Minority interests		**88**	5,497
		347,477	302,268
DIVIDENDS	10	**157,217**	204,403
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (basic)	12	**RMB0.32**	RMB0.44

Consolidated Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**590,972**	367,884
Prepaid land lease payments	14	**75,501**	32,792
Intangible assets	15	**15,625**	14,930
Interest in a jointly-controlled entity	17	**79,016**	—
Interest in an associate	18	**—**	1,920
Available-for-sale financial assets	19	**400**	1,200
Goodwill	16(ii)	**1,940**	—
Deferred tax assets	31	**6,956**	—
Total non-current assets		**770,410**	418,726
CURRENT ASSETS			
Inventories	20	**439,521**	357,157
Trade receivables	21	**501,680**	508,153
Notes receivable	22	**258,200**	143,853
Prepayments, deposits and other receivables	23	**164,482**	96,088
Pledged deposits	24	**7**	2,969
Cash and cash equivalents	24	**1,510,603**	2,261,310
Total current assets		**2,874,493**	3,369,530
CURRENT LIABILITIES			
Trade payables	25	**221,680**	230,312
Notes payable	26	**48,172**	98,672
Other payables and accruals	27	**149,155**	209,698
Provision for warranties	28	**45,646**	36,898
Interest-bearing bank and other borrowings	29	**—**	364,537
Deferred government grants	30	**14,211**	—
Tax payable		**4,589**	129
Total current liabilities		**483,453**	940,246
NET CURRENT ASSETS		**2,391,040**	2,429,284
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,161,450**	2,848,010
NET ASSETS		**3,161,450**	2,848,010
EQUITY			
Equity attributable to equity holders of the parent			
Issued share capital	32	**1,084,256**	1,084,256
Reserves	33	**1,915,720**	1,725,465
Proposed final dividend	10(ii)	**157,217**	36,865
		3,157,193	2,846,586
MINORITY INTERESTS		**4,257**	1,424
TOTAL EQUITY		**3,161,450**	2,848,010

Ding Rongjun
Director

Lu Penghu
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2007

	Notes	Attributable to equity holders of the parent							
		Issued share capital RMB'000	Capital reserve RMB'000	Statutory reserves RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
1 January 2006		669,612	(176,913)	13,134	—	124,333	630,166	26,041	656,207
Profit for the year		—	—	—	—	296,771	296,771	5,497	302,268
Total income and expense for the year		—	—	—	—	296,771	296,771	5,497	302,268
Issue of shares	32	414,644	1,795,324	—	—	—	2,209,968	—	2,209,968
Share issuing expenses		—	(122,781)	—	—	—	(122,781)	—	(122,781)
Acquisition of additional interests in subsidiaries	5(i)	—	—	—	—	—	—	(21,999)	(21,999)
Dividends paid to minority shareholders		—	—	—	—	—	—	(8,115)	(8,115)
Transfer from retained profits	33	—	—	25,383	—	(25,383)	—	—	—
Dividends paid	10(i)	—	—	—	—	(167,538)	(167,538)	—	(167,538)
Proposed final 2006 dividend	10(ii)	—	—	—	36,865	(36,865)	—	—	—
At 31 December 2006 and 1 January 2007		1,084,256	1,495,630*	38,517*	36,865	191,318*	2,846,586	1,424	2,848,010
Profit for the year		—	—	—	—	347,389	347,389	88	347,477
Total income and expense for the year		—	—	—	—	347,389	347,389	88	347,477
Adjustment of appropriation to reserve upon adoption of new accounting standards	33	—	—	(10,039)	—	10,039	—	—	—
Consolidation of a subsidiary due to acquisition of additional voting rights	16(i)	—	—	—	—	—	—	2,745	2,745
Final 2006 dividend declared		—	—	—	(36,865)	83	(36,782)	—	(36,782)
Transfer from retained profits		—	—	23,809	—	(23,809)	—	—	—
Proposed final 2007 dividend	10(ii)	—	—	—	157,217	(157,217)	—	—	—
At 31 December 2007		1,084,256	1,495,630*	52,287*	157,217	367,803*	3,157,193	4,257	3,161,450

* These reserve accounts comprise the consolidated reserves of RMB1,915,720,000 (2006: RMB1,725,465,000) in the consolidated balance sheet.

Consolidated Cash Flow Statement

Year ended 31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**344,911**	302,581
Adjustments for:			
Finance costs	7	**3,169**	14,352
Interest income	5	**(29,204)**	(25,048)
Loss on disposal of an associate	6	**—**	277
Share of loss of an associate		**—**	80
Share of profit of a jointly-controlled entity	17	**(15,501)**	—
Losses/(gains) on disposal of items of property, plant and equipment, net	6	**419**	(53)
Depreciation of items of property, plant and equipment	6	**46,039**	33,764
Amortisation of prepaid land lease payments	6	**838**	556
Amortisation of intangible assets	6	**3,230**	2,192
Provision for impairment of trade and other receivables, net	6	**10,584**	17,520
Provision for obsolete inventories	6	**4,848**	12,297
Write-off of an available-for-sale financial asset	6	**—**	306
Excess of the acquirers' additional interests in the carrying value of the acquirees' net assets over the cost of acquisition of additional interests in subsidiaries	5	**—**	(7,952)
		369,333	350,872
Increase in trade receivables, notes receivable, prepayments, deposits and other receivables		**(94,219)**	(14,778)
Increase in inventories		**(77,953)**	(145,576)
Increase/(decrease) in trade payables, notes payable, other payables and accruals		**(137,624)**	17,025
Change in deferred government grant		**14,211**	—
Increase in provision for warranties		**8,748**	5,000
Cash generated from operations		**82,496**	212,543
Interest paid		**(3,169)**	(14,352)
Income tax paid		**(707)**	(203)
Net cash inflow from operating activities		**78,620**	197,988

	Notes	2007 RMB'000	2006 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**29,204**	2,382
Purchases of items of property, plant and equipment		**(280,725)**	(102,608)
Additions to prepaid land lease payments	14	**(43,547)**	(11,508)
Additions to intangible assets	15	**(3,911)**	(2,994)
Proceeds from disposal of items of property, plant and equipment		**151**	4,016
Proceeds from disposal of an available-for-sale financial asset		**—**	100
Installments on acquisition of certain subsidiaries in a prior year		**—**	(19,095)
Acquisition of additional interests in subsidiaries	5(i)	**—**	(14,047)
Investment in an associate		**—**	(2,000)
Investment in jointly-controlled entity	17	**(63,515)**	—
Investment in subsidiaries		**2,574**	—
Disposal of an associate		**—**	703
Increase of loan receivable	23	**(65,000)**	—
Increase in non-pledged time deposits with original maturity of three months or more when acquired	24	**(800,000)**	—
Decrease/(increase) in pledged deposits		**2,962**	(2,969)
Net cash outflow from investing activities		**(1,221,807)**	(148,020)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	32	**—**	2,209,968
Interest income received on application funds		**—**	22,666
Share issuing expenses		**—**	(122,781)
New bank and other borrowings		**—**	480,537
Repayment of bank and other borrowings		**(367,537)**	(368,521)
Dividends paid		**(39,983)**	(167,538)
Dividends paid to minority shareholders		**—**	(8,115)
Net cash inflow from financing activities		**(407,520)**	2,046,216
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		**(1,550,707)**	2,096,184
Cash and cash equivalents at beginning of year		**2,261,310**	165,126
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	**710,603**	2,261,310
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	24	**710,603**	2,261,310

Balance Sheet

31 December 2007

	Notes	2007 RMB'000	2006 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**446,190**	265,226
Prepaid land lease payments	14	**52,017**	8,788
Intangible assets	15	**15,103**	14,142
Investments in subsidiaries	16	**167,568**	127,067
Investment in a jointly-controlled entity	17	**63,515**	—
Deferred tax assets	31	**5,593**	—
Total non-current assets		**749,986**	415,223
CURRENT ASSETS			
Inventories	20	**377,665**	267,204
Trade receivables	21	**421,588**	433,230
Notes receivable	22	**209,270**	86,872
Prepayments, deposits and other receivables	23	**212,898**	183,883
Pledged deposits	24	**7**	704
Cash and cash equivalents	24	**1,426,711**	2,232,766
Total current assets		**2,648,139**	3,204,659
CURRENT LIABILITIES			
Trade payables	25	**272,170**	253,318
Notes payable	26	**48,172**	92,342
Other payables and accruals	27	**136,611**	185,170
Provision for warranties	28	**35,461**	26,095
Interest-bearing bank and other borrowings	29	**—**	364,537
Deferred government grants	30	**13,996**	—
Tax payable		**2,313**	—
Total current liabilities		**508,723**	921,462
NET CURRENT ASSETS		**2,139,416**	2,283,197
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,889,402**	2,698,420
NET ASSETS		**2,889,402**	2,698,420
EQUITY			
Issued capital	32	**1,084,256**	1,084,256
Reserves	33	**1,647,929**	1,577,299
Proposed final dividend	10(ii)	**157,217**	36,865
TOTAL EQUITY		**2,889,402**	2,698,420

Ding Rongjun
Director

Lu Penghu
Director

Notes to the Consolidated Financial Statements

1. CORPORATE INFORMATION

The Company was established in the People's Republic of China (the "PRC") on 26 September 2005 as a joint stock company with limited liability under the Company Law of the PRC.

The registered office of the Company is located at Times Road, Shifeng District, Zhuzhou City, Hunan Province, PRC.

The Company and its subsidiaries are principally engaged in the sale and manufacture of train-borne electrical systems and electrical components.

In the opinion of the directors, the holding company of the Group is CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (formerly CSR Zhuzhou Electric Locomotive Research Institute, "ZELRI") and the ultimate holding company of the Group is China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), which are established in the PRC.

2.1 BASIS OF PREPARATION

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("IFRICs") approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance (the "Companies Ordinance"). They have been prepared under the historical cost convention, except for certain financial assets as further explained below.

The Company was established in September 2005 as part of the restructuring of ZELRI (the "Reorganisation") and pursuant to the Reorganisation, ZELRI transferred its assets, liabilities and businesses relating to the manufacture and sale of train-borne electrical systems and electrical components (the "Relevant Businesses") to the Company as a capital contribution, and the Company issued certain shares to ZELRI credited as fully paid as consideration.

As ZELRI controlled the Relevant Businesses before the Reorganisation and continues to have control over the Company and its subsidiaries (collectively the "Group") after the Reorganisation, the Reorganisation has been accounted for as a reorganisation of entities under common control in a manner similar to pooling of interests. As a result, the Group's financial statements have been prepared on the basis as if the Relevant Businesses had been transferred to the Company by ZELRI from the earliest date presented or since the date when the Relevant Businesses first came under common control. Accordingly, the assets and liabilities comprising the Relevant Businesses transferred to the Company and carried forward to the years ended 31 December 2006 and 2007 have been stated at historical amounts in the Company's and the Group's financial statements.

The financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand, except when otherwise indicated.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2007. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Except for reorganisation under common control which has been accounted for as a combination of business under common control in a manner similar to a pooling of interests, the acquisition of subsidiaries has been accounted for using the purchase method of accounting.

The pooling-of-interests method of accounting involves incorporating the financial statement items of the combining entities or business in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The purchase method of accounting involves allocating the cost of a business combination to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. Acquisition of minority interests are accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

2.2 IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The principal accounting policies used in the preparation of these financial statements are consistent with those used in the annual audited financial statements for the year ended 31 December 2006, except that the Group has adopted the following new and amended IFRSs and International Financial Reporting Interpretations ("IFRICs") during the year. Adoption of these new and amended standards and interpretations did not have any material effect on these financial statements of the Group. They did however give rise to additional disclosures.

IAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC – Int 7	Applying the Restatement Approach under IAS 29 *Financial Reporting In Hyperinflationary Economies*
IFRIC – Int 8	Scope of IFRS 2
IFRIC – Int 9	Reassessment of Embedded Derivatives
IFRIC – Int 10	Interim Financial Reporting and Impairment

The principal effects of these changes are as follows:

(a) Amendment to IAS 1 *Presentation of Financial Statements - Capital Disclosures*

This amendment requires the Group to make disclosures that enable users of the financial statements to evaluate the Group's objectives, policies and processes for managing capital. These new disclosures are shown in note 40 to the financial statements.

(b) IFRS 7 *Financial Instruments: Disclosures*

This standard requires disclosures that enable users of the financial statements to evaluate the significance of the Group's financial instruments and the nature and extent of risks arising from those financial instruments. The new disclosures are included throughout the financial statements. While there has been no effect on the financial position or results of operations of the Group, comparative information has been included/revised where appropriate.

(c) IFRIC – Int 7 *Applying the Restatement Approach under IAS 29 Financial Reporting In Hyperinflationary Economies*

The main requirements of the Interpretation are:

In the period in which the economy of an entity's functional currency becomes hyperinflationary, the entity shall apply the requirements of IAS 29 as though the economy had always been hyperinflationary. The effect of this requirement is that restatements of non-monetary items carried at historical cost are made from the dates at which those items were first recognised; for other non-monetary items the restatements are made from the dates at which revised current values for those items were established. The interpretation also addresses the accounting for deferred tax. IFRIC 7 is effective for annual periods beginning on or after 1 March 2006. As the Group did not operate in the economy, where the functional currencies were hyperinflationary, the interpretation has had no effect on these financial statements.

(d) IFRIC – Int 8 *Scope of IFRS 2*

This interpretation requires IFRS 2 to be applied to any arrangement in which the Group cannot identify specifically some or all of the goods or services received, for which equity instruments are granted or liabilities (based on a value of the Group's equity instruments) are incurred by the Group for a consideration, and which appears to be less than the fair value of the equity instruments granted or liabilities incurred. As the Group did not have such arrangement during the year, the interpretation has had no effect on these financial statements.

2.2 IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(e) IFRIC – Int 9 *Reassessment of Embedded Derivatives*

This interpretation requires that the date to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative is the date that the Group first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. As the Group's existing policy of accounting for derivatives complies with the requirements of the interpretation, the interpretation has had no effect on these financial statements.

(f) IFRIC – Int 10 *Interim Financial Reporting and Impairment*

The Group has adopted this interpretation as of 1 January 2007, which requires that an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument classified as available-for-sale or a financial asset carried at cost is not subsequently reversed. As the Group had no impairment losses previously reversed in respect of such assets, the interpretation has had no impact on the financial position or results of operations of the Group.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 27 (Revised)	Consolidated and Separate Financial Statements
IFRS 3 (Revised)	Business Combinations
IAS 1 (Amendment)	Presentation of Financial Statements: Puttable Financial Instruments
IAS 32 (Amendment)	Financial Instruments Presentation: Puttable Financial Instruments
IFRS 2 (Amendment)	Share-based Payment: Vesting Conditions and Cancellations
IFRS 8	Operating Segments
IFRIC – Int 11	IFRS 2 – Group and Treasury Share Transaction
IFRIC – Int 12	Service Concession Arrangements
IFRIC – Int 13	Customer Loyalty Programmes
IFRIC – Int 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IAS 1 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The Standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense, either in one single statement, or in two linked statements. The Group is still evaluating whether it will have one or two statements and expects to adopt IAS 1 (Revised) from 1 January 2009.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The standard has been revised to require capitalisation of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. As the Group's current accounting policy for borrowing costs aligns with the requirements of the revised standards, IAS 23 (Revised) is unlikely to have any impact on the Group. The Group expects to adopt IAS 23 (Revised) from 1 January 2009.

IAS 27 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The standard has been revised to require that a change in the ownership interest of a subsidiary is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give raise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes introduced by IAS 27 must be applied prospectively and will affect future acquisitions and transactions with minority interests. The Group expects to adopt IAS 27 (Revised) from 1 January 2010.

IFRS 3 (Revised) shall be applied for annual periods beginning on or after 1 July 2009. The standard introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results. The changes introduced by IFRS 3 must be applied prospectively and will affect future acquisitions and transactions with minority interests. The Group expects to adopt IFRS 3 (Revised) from 1 January 2010.

IAS 1 (Amendment) shall be applied for annual periods beginning on or after 1 January 2009. The amendment requires disclosure of certain information relating to puttable instruments classified as equity. The Group does not expect the amendment to impact the financial statements of the Group.

IAS 32 (Amendment) shall be applied for annual periods beginning on or after 1 January 2009. The amendment requires certain puttable financial instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The Group does not expect the amendment to impact the financial statements of the Group.

IFRS 2 (Amendment) shall be applied for annual periods beginning on or after 1 January 2009. The Standard restricts the definition of "vesting condition" to a condition that includes an explicit or implicit requirement to provide services. Any other conditions are non-vesting conditions, which have to be taken into account to determine the fair value of the equity instruments granted. In the case that the award does not vest as the result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this must be accounted for as a cancellation. The Group has not entered into share-based payment schemes with non-vesting conditions attached and, therefore, does not expect significant implications on its accounting for share-based payments.

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009. The standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. As disclosed in note 4 to the financial statements, no analysis in business or geographical segment is presented. Therefore IFRS 8 is unlikely to have any significant financial impact on the Group. The Group expects to adopt IFRS 8 from 1 January 2009.

2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

IFRIC – Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments, to be accounted for as an equity-settled scheme, even if the Group acquires the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC – Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. As the Group currently has no such transactions, the interpretation is unlikely to have any financial impact on the Group.

IFRIC – Int 12 requires an operator under public-to-private service concession arrangements to recognise the consideration received or receivable in exchange for the construction services as a financial asset and/or an intangible asset, based on the terms of the contractual arrangements. IFRIC – Int 12 also addresses how an operator shall apply existing IFRSs to account for the obligations and the rights arising from service concession arrangements by which a government or a public sector entity grants a contract for the construction of infrastructure used to provide public services and/or for the supply of public services. As the Group currently has no such arrangements, the interpretation is unlikely to have any financial impact on the Group.

IFRIC – Int 13 requires that loyalty award credits granted to customers as part of a sales transaction are accounted for as a separate component of the sales transaction. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished.

IFRIC – Int 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, in particular, when a minimum funding requirement exists.

As the Group currently has no customer loyalty award credits and defined benefit scheme, IFRIC – Int 13 and IFRIC – Int 14 are not applicable to the Group and therefore are unlikely to have any financial impact on the Group.

IFRIC – Int 11, IFRIC – Int 12, IFRIC – Int 13, and IFRIC – Int 14 shall be applied for annual periods beginning on or after 1 March 2007, 1 January 2008, 1 July 2008 and 1 January 2008, respectively. The Group expects to adopt IFRIC – Int 11, IFRIC – Int 12, and IFRIC – Int 14 from 1 January 2008 and IFRIC – Int 13 from 1 January 2009.

The Group has commenced its assessment of the impact of these standards and interpretation upon initial application but it is not yet in a position to state whether these standards and interpretations would have a material impact on its results of operations and financial position.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture entity and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

(a) a subsidiary, if the Company has unilateral control, directly and indirectly, over the joint venture company;

(b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control, directly and indirectly, over the joint venture;

(c) an associate, if the Company does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Company holds, directly and indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interest in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in jointly-controlled entities. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Jointly-controlled entities (continued)

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

Associates

The Group's investments in their associates are accounted for under the equity method of accounting. These associates are entities over which the Group has significant influence and neither subsidiaries nor jointly-controlled entities of the Group.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and stated at cost less any impairment losses.

Goodwill

Goodwill on acquisition of subsidiaries is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses and is not amortised.

The carrying amount of goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill (continued)

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries and jointly-controlled entities, after assessment, is recognised immediately in the income statement.

The excess for jointly-contracted entities is included in the Group's share of the jointly-controlled entities' profits or losses in the period in which the investments are acquired.

Foreign currencies

The financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the financial statements of overseas subsidiaries are translated into RMB. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. No significant exchange differences relating to financial statement translation arose during the years ended 31 December 2006 and 2007.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, which consist of buildings, plant, machinery and equipment, computer equipment and others are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statements in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset or as a replacement.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account their estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

	Useful life
Buildings	20 years
Plant, machinery and equipment	10 years
Computer equipment and others	5 years

The assets' residual values, useful lives and methods of depreciation are revised, and adjusted if appropriate, at each financial year end.

The gain or loss on disposal or retirement of an item of property, plant and equipment recognised in the consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

Construction in progress represents buildings, plant, machinery and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Prepaid land lease payments

Prepaid land lease payments represent the cost of land use rights paid to the PRC government authorities. Land use rights are stated at cost less accumulated amortisation and any impairment losses. The land use rights are amortised on the straight-line basis over the terms of the rights ranging from 40 to 50 years.

Intangible assets (other than goodwill)

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each balance sheet date.

Patents, licenses and technical know-how

Expenditure on patents, licenses and technical know-how is capitalised as intangible assets and amortised using the straight-line method over their useful lives of 10 years. Patents, licenses and technical know-how are not revalued as there is no active market for these assets.

Computer software

Acquired computer softwares are capitalised on the basis of the costs incurred to acquire and bring to use the specific softwares. These costs are amortised using the straight-line method over their estimated useful lives of 3 to 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

Research costs are expensed as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products, commencing from the date when the products are put into commercial production.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of non-financial assets other than goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is calculated as the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the income statement in period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

Investments and other financial assets

Financial assets in the scope of IAS39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the consolidated income statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in the consolidated income statement when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost less any allowance for impairment. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statements when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity are included in the consolidated income statements. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve. When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. These techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or ''prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains or losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labor and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Trade and other receivables

Trade and other receivables are recognised and carried at invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statements.

Provision for product warranties granted by the Group for its products is recognised based on the sales volume and past experience of the level of repairs, discounted to its present value as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending for their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised as expenses in the consolidated income statements in the period in which they are incurred.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statement on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statement on the straight-line basis over the lease terms.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

PRC corporate income tax is provided at rates applicable to enterprises in the PRC on the Group's income for financial reporting purposes, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, interests in associates and interests in jointly-controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, interests in associates and interests in jointly-controlled entities, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits

The Company and its subsidiaries established in the PRC are required to participate in a central pension scheme operated by relevant government authorities in the PRC. The Group contributes on a monthly basis to the relevant defined contribution retirement benefit plans, the PRC government undertakes to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to the consolidated income statement as they become payable, in accordance with the rules of the central pension scheme.

In 2006, the Group implemented a new pension annuity plan pursuant to which the Group is required to regularly contribute a fixed percentage of salaries to the plan and the Group has no further obligation thereto once the required contribution has been made. The contributions are recognised as an employee benefit expense when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for obsolete inventories

Management reviews the condition of inventories of the Group at each balance sheet date and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at each balance sheet date.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated.

Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of receivables

The policy for impairment of receivables of the Group is based on the evaluation of collectability and the aging analysis of trade receivables and on the judgment of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation on each of the balance sheet dates.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2007, no development costs have been capitalised (2006: Nil).

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount.

4. SEGMENT INFORMATION

Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, which the Group has determined to be by business segment; and (ii) on a secondary segment reporting basis, which the Group has determined to be by geographical segment.

The Group is principally engaged in the manufacture and sale of electrical systems and components relating to locomotive and rolling stock. All of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single business segment. In addition, the Group's revenue, expenses, profit, assets and liabilities and capital expenditures are principally attributable to a single geographical region, which is the PRC. Therefore, no analysis by business or geographical segment is presented.

5. REVENUE, OTHER REVENUE AND GAINS

Revenue on sale of goods

Revenue represents the net invoiced value of goods sold, net of discounts and returns.

An analysis of the Group's revenue, other revenue and gains is as follows:

	Notes	2007 RMB'000	2006 RMB'000
Revenue:			
Sale of goods		**1,554,841**	1,266,909
Less: Sales taxes and surcharges		**(13,037)**	(10,983)
		1,541,804	1,255,926
Other revenue and gains:			
Interest income		**29,204**	25,048
Profit from sale of raw materials		**242**	2,246
Gross rental income		**2,126**	2,359
Excess of the acquirers' additional interests in the carrying value of the acquirees' net assets over the cost of acquisition of additional interests in subsidiaries	(i)	**—**	7,952
Value-added tax refund	(ii)	**25,570**	15,499
Technical service income		**4,849**	2,780
Government grants	(iii)	**19,638**	1,495
Others		**3,600**	7,094
Total		**85,229**	64,473

5. REVENUE, OTHER REVENUE AND GAINS (continued)

Revenue on sale of goods (continued)

(i) Acquisition of additional interests in subsidiaries

In June 2006, the Company acquired a further 10% equity interest in Zhuzhou Times Electronics Technology Co., Ltd. ("Times Electronics"), a then 90%-owned subsidiary, at a consideration of RMB9,150,000. In addition, the Company agreed that the seller should be entitled to 10% of the net profit of Times Electronics for the six months ended 30 June 2006, which amounted to RMB4,005,000. The Group's additional interest in the carrying value of the net assets of Times Electronics arising from the acquisition of a 10% equity interest from Times Electronics' minority shareholders amounted to RMB20,569,000 and the excess of the carrying value over the cost of acquisition attributable to the Group (including the net profit of Times Electronics entitled by the seller) of RMB7,414,000 was credited to the Group's consolidated income statement for the year ended 31 December 2006. The cash flows used in the investment activities for the year ended 31 December 2006 amounted to RMB13,155,000.

In December 2006, Times Electronics acquired a further 15% equity interest in Zhuzhou Times Guangchuang Converter Technology Co., Ltd. ("Times Guangchuang"), a then 70%-owned subsidiary of Times Electronics, at a consideration of RMB892,000 in cash. Thereafter, its equity interest in Times Guangchuang increased from 70% to 85%. Times Electronics' additional interest in the carrying value of the net assets of Times Guangchuang arising from the acquisition of the 15% equity interest from Times Guangchuang' minority shareholders amounted to RMB1,430,000, and the excess of the carrying value over the cost of acquisition attributable to Times Electronics of RMB538,000 was recognised in the Group's consolidated income statement for the year ended 31 December 2006.

(ii) Value-added tax refund

Sales of goods are generally subject to value-added tax ("VAT") at a rate of 17%. Pursuant to the "Notice on the Taxation Policy Issues relating to Encouraging the Development of the Software Industry and Integrated Circuit Industry" issued by the State Administration of Taxation and General Administration of Custom, the Group is entitled to a refund of VAT paid in excess of 3% in respect of sale of certain products during the years ended 31 December 2006 and 2007.

(iii) Government grants

Government grants have been received for certain research and development projects. There are no unfulfilled conditions or contingencies attaching to these grants.

6. PROFIT BEFORE TAX

The Group's profit before tax from operating activities is arrived at after charging/(crediting):

	Note	2007 RMB'000	2006 RMB'000
Cost of inventories sold		**865,480**	640,377
Staff costs (including directors' and supervisors' emoluments)	(i)	**165,912**	139,462
Auditors' remuneration		**4,820**	3,600
Depreciation of items of property, plant and equipment		**46,039**	33,764
Amortisation of lease prepayments		**838**	556
Amortisation of intangible assets		**3,230**	2,192
Minimum lease payments under operating leases in respect of:			
Land and buildings		**1,636**	457
Plant and equipment		**6,841**	9,115
Provision for obsolete inventories		**4,848**	12,297
Exchange losses, net		**19,659**	1,442
Research and development costs		**116,583**	95,982
Less: staff costs included above		**(42,673)**	(39,259)
depreciation and amortisation included above		**(10,545)**	(3,133)
Research and development costs net of staff cost, depreciation and amortisation		**63,365**	53,590
Losses/(gains) on disposal of items of property, plant and equipment, net		**419**	(53)
Provision for impairment of trade and other receivables, net		**10,584**	17,520
Write-off of an available-for-sale financial asset		**—**	306
Loss on disposal of an associate		**—**	277
Provision for warranties		**32,206**	33,273
Interest income		**(29,204)**	(25,048)
Gross rental income		**(2,126)**	(2,359)

6. PROFIT BEFORE TAX (continued)

(i) Staff costs

	2007 RMB'000	2006 RMB'000
Wages, salaries and bonuses	**119,139**	104,728
Contribution to government-operated pension schemes	**15,115**	8,862
Contribution to a pension annuity plan	**4,366**	3,713
Welfare and other expenses	**27,292**	22,159
Total	**165,912**	139,462

In 2006, the Group implemented a new pension annuity plan. Pursuant to the new pension annuity plan, the Group is required to contribute a fixed percentage of salaries to the annuity plan and has no further payment obligation to the pension annuity plan once the contributions have been made.

7. FINANCE COSTS

	2007 RMB'000	2006 RMB'000
Interest paid on bank and other borrowings repayable within one year	**3,169**	14,352

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Details of the directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance, are as follows:

	2007 RMB'000	2006 RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,725**	1,403
Bonuses	**813**	1,690
Pension scheme contributions	**60**	62
Total	**2,598**	3,155

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2007 are as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
Ding Rongjun	—	203	374	15	592
Lu Penghu	—	220	241	15	476
Non-executive directors:					
Liao Bin	—	94	—	—	94
Tian Lei	—	67	—	—	67
Song Yali	—	—	—	—	—
Ma Yunkun	—	54	—	—	54
Independent non-executive directors:					
Zhou Heliang	—	65	—	—	65
Gao Yucai	—	65	—	—	65
Chan Kam Wing, Clement	—	205	—	—	205
Pao Ping Wing	—	205	—	—	205
Tan Xiao'ao	—	65	—	—	65
	—	1,243	615	30	1,888
Supervisors:					
Jiang Yi	—	172	126	15	313
Pang Yiming	—	137	72	15	224
Zhang Liqiang	—	45	—	—	45
He Hongqu	—	63	—	—	63
Liu Chunru	—	65	—	—	65
Liu Ke´an	—	—	—	—	—
	—	482	198	30	710
Total	—	1,725	813	60	2,598

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2006 are as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
Liao Bin	—	177	417	10	604
Tian Lei	—	157	417	10	584
Ding Rongjun	—	135	408	12	555
Lu Penghu	—	27	28	2	57
Non-executive directors:					
Liao Bin	—	35	83	2	120
Tian Lei	—	31	83	2	116
Ma Yunkun	—	56	—	—	56
Independent non-executive directors:					
Zhou Heliang	—	5	—	—	5
Gao Yucai	—	5	—	—	5
Chan Kam Wing, Clement	—	138	—	—	138
Pao Ping Wing	—	138	—	—	138
Tan Xiao'ao	—	33	—	—	33
	—	937	1,436	38	2,411
Supervisors:					
Jiang Yi	—	162	100	12	274
Pang Yiming	—	126	154	12	292
Zhang Liqiang	—	44	—	—	44
He Hongqu	—	67	—	—	67
Liu Chunru	—	67	—	—	67
	—	466	254	24	744
Total	—	1,403	1,690	62	3,155

The following changes of directors and supervisors were effective on 17 December 2007:

(1) Mr. Liao Bin, a non-executive director, has resigned as the chairman of the board but will remain as a non-executive director;

(2) Mr. Tian Lei has resigned as the vice chairman of the board and non-executive director;

(3) Mr. Ding Rongjun, an executive director, has resigned as the president of the Company and has been appointed as the chairman of the board;

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (continued)

(4) Mr. Jiang Yi has resigned as a supervisor and has been appointed as the chief marketing officer of the Company;

(5) Mr. He Hongqu has resigned as a supervisor;

(6) Mr. Song Yali has been appointed as the vice chairman of the board and a non-executive director;

(7) Mr. Liu Ke´an has been appointed as a supervisor.

The five highest paid employees of the Group during the year were as follows:

	The Group	
	2007	2006
Directors and supervisors	**2**	3
Non-director and non-supervisor employees	**3**	2
	5	5

The remuneration paid to the above non-director, non-supervisor, highest paid employees is as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,098**	312
Bonuses	**423**	372
Pension scheme contributions	**30**	23
	1,551	707

The number of these non-director, non-supervisor, highest paid employees whose remuneration fell within the following band is as follows:

	2007	2006
Nil to HK$1,000,000	**3**	2

During the year, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

There was no arrangement under which a director waived or agreed to waive any remuneration nor during the year.

9. TAX

The Group is subject to income tax on an entity basis on the profits arising in or derived from jurisdictions in which members of the Group are domiciled and operate.

PRC corporate income tax ("CIT") has been provided based on the taxable income as reported in the statutory accounts of the relevant companies comprising the Group, which are prepared in accordance with applicable PRC accounting standards as adjusted for income and expense items which are not assessable or deductible for income tax purpose. The income tax rates for the Company and its subsidiaries are as follows:

(i) Pursuant to a notice issued by the Ministry of Finance and State Tax Bureau and approval documents issued by relevant local tax authorities in respect of the extension of the implementation period of tax policy for transformed scientific research entities, the Company is exempt from CIT from its establishment date up to 30 September 2007. Thereafter, the Company is subject to a tax rate of 15% for one year starting from 1 October 2007. However, upon the implementation of new CIT Law effective on 1 January 2008, the directors are in process of clarification with relevant tax authorities of whether the CIT rate of 15% will be applicable to the Company from 1 January 2008 to 30 September 2008.

(ii) Times Electronics and Times Guangchuang are enterprises established in Zhuzhou Hi-technology Development Zone and are subject to CIT at a rate of 15%. As approved by the local tax authorities, Times Electronics is entitled to an exemption from CIT from 1 April 2005 to 30 September 2007 and no provision for income tax of Times Electronics was made up to 30 September 2007. Thereafter, Times Electronics is subject to CIT at a rate of 15% for one year starting from 1 October 2007 according to the approval from relevant tax authorities. However, upon the implementation of new CIT Law effective on 1 January 2008, the directors are in process of clarification with relevant tax authorities of whether the CIT rate of 15% will be applicable to Times Electronics from 1 January 2008 to 30 September 2008. From 1 January 2004, Times Guangchuang, as a software development enterprise, is entitled to a 50% reduction of PRC enterprise income tax for 2004 to 2006. Accordingly, Times Guangchuang is subject to reduced tax rate of 7.5% until 31 December 2006. Thereafter, Times Guangchuang, as a Hi-technology enterprise, is subject to CIT at the rate of 15% during the year ended 31 December 2007.

(iii) As approved by the relevant tax authorities, Ningbo CSR Times Sensor Technology Company Ltd. ("Ningbo Company"), as a scientific research organisation enterprise, is exempt from CIT from 2002 to 2005. In addition, pursuant to relevant tax regulations and the approval from the relevant tax authorities, the CIT exemption granted to Ningbo Company is further extended to the years ended 31 December 2006 and 31 December 2007. Therefore, no provision for CIT of Ningbo Company was made during the year.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the PRC, based on existing legislation, interpretations and practices.

	2007 **RMB'000**	2006 RMB'000
Current income tax – PRC corporate income tax	**4,390**	313
Deferred income tax credit (note 31)	**(6,956)**	—
Income tax (credit)/charge for the year	**(2,566)**	313

9. TAX (continued)

A reconciliation of income tax exposure applicable to profit before tax at the statutory income tax rate in the PRC to income tax exposure at the Group's effective income tax rate are as follows:

	2007		2006	
	RMB'000	%	RMB'000	%
Profit before tax	344,911		302,581	
Standard tax rate applied to profit before tax	113,821	33.0	99,852	33.0
Reconciling items:				
Profits and losses attributable to jointly-controlled entities and associates	(2,325)	(0.7)	—	—
Expenses not deductible for income tax purposes	10,061	2.9	3,984	1.3
Income not subject to income tax	(21,881)	(6.3)	(7,769)	(2.6)
Effect of tax incentive	(31,044)	(9.0)	(1,235)	(0.4)
Tax exemptions	(72,548)	(21.0)	(94,519)	(31.2)
Tax losses not recognised	1,350	0.4	—	—
Total tax charge for the year	(2,566)	(0.7)	313	0.1

10. DIVIDENDS

	2007	2006
	RMB'000	RMB'000
Special dividend (i)	—	167,538
Proposed final – RMB0.145 (2006: RMB0.034) per ordinary share (ii)	157,217	36,865
	157,217	204,403

(i) In November 2006, as approved at the shareholders' meeting of the Company, a special dividend of RMB167,538,000 which represents an amount equal to the net profit earned during the period from 26 September 2005 to 30 June 2006, as determined based on the lower of the Company's PRC generally accepted accounting principles ("GAAP") and IFRS after-tax profits after allowance for the transfer to the statutory common reserve fund of an amount of RMB14,278,000, was declared to be payable to the shareholders of the Company before the issue of H shares.

(ii) The proposed final dividend for the year ended 31 December 2006 has been approved by the Company's shareholders at the annual general meeting in June 2007. While the proposed final dividend for the year ended 31 December 2007 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to the equity holders of the parent for the year ended 31 December 2007 includes a profit of RMB227,764,000 (2006: RMB268,673,000), which has been dealt with in the financial statements of the Company (note 33).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on:

	2007 RMB'000	2006 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	**347,389**	296,771
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,084,255,637**	682,058,366

No diluted earnings per share have been disclosed as no diluting events existed during the years ended 31 December 2007 and 2006.

13. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007					
At 31 December 2006 and at 1 January 2007:					
Cost	222,020	162,891	69,169	65,201	519,281
Accumulated depreciation and impairment	(55,332)	(67,323)	(28,742)	—	(151,397)
Net carrying amount	166,688	95,568	40,427	65,201	367,884
At 1 January 2007, net of accumulated depreciation and impairment	166,688	95,568	40,427	65,201	367,884
Reclassification	(1,075)	925	150	—	—
Acquisition of a subsidiary	—	797	506	237	1,540
Consolidation of a subsidiary due to acquisition of additional voting rights	—	—	58	—	58
Additions	190	70,179	18,326	179,404	268,099
Disposals	(22)	(209)	(339)	—	(570)
Depreciation provided during the year	(13,574)	(20,241)	(12,224)	—	(46,039)
Transfers	83,724	10,031	985	(94,740)	—
At 31 December 2007, net of accumulated depreciation and impairment	235,931	157,050	47,889	150,102	590,972
At 31 December 2007:					
Cost	305,542	245,100	85,617	150,102	786,361
Accumulated depreciation and impairment	(69,611)	(88,050)	(37,728)	—	(195,389)
Net carrying amount	235,931	157,050	47,889	150,102	590,972

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Group (continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006					
At 31 December 2005 and at 1 January 2006:					
Cost	200,122	151,712	36,025	35,981	423,840
Accumulated depreciation and impairment	(45,808)	(60,756)	(14,273)	—	(120,837)
Net carrying amount	154,314	90,956	21,752	35,981	303,003
At 1 January 2006, net of accumulated depreciation and impairment	154,314	90,956	21,752	35,981	303,003
Reclassification	(4)	(2,886)	2,890	—	—
Additions	1,100	20,206	27,052	54,250	102,608
Disposals	(1,096)	(315)	(1,832)	(720)	(3,963)
Depreciation provided during the year	(10,483)	(13,846)	(9,435)	—	(33,764)
Transfers	22,857	1,453	—	(24,310)	—
At 31 December 2006, net of accumulated depreciation and impairment	166,688	95,568	40,427	65,201	367,884
At 31 December 2006:					
Cost	222,020	162,891	69,169	65,201	519,281
Accumulated depreciation and impairment	(55,332)	(67,323)	(28,742)	—	(151,397)
Net carrying amount	166,688	95,568	40,427	65,201	367,884

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2007					
At 31 December 2006 and at 1 January 2007:					
Cost	177,167	147,365	52,369	14,306	391,207
Accumulated depreciation and impairment	(39,780)	(65,821)	(20,380)	—	(125,981)
Net carrying amount	137,387	81,544	31,989	14,306	265,226
At 1 January 2007, net of accumulated depreciation and impairment	137,387	81,544	31,989	14,306	265,226
Reclassification	(4,351)	4,411	(60)	—	—
Additions	—	72,241	13,713	132,829	218,783
Depreciation provided during the year	(9,574)	(18,532)	(9,713)	—	(37,819)
Transfers	14,987	9,879	985	(25,851)	—
At 31 December 2007, net of accumulated depreciation and impairment	138,449	149,543	36,914	121,284	446,190
At 31 December 2007:					
Cost	191,780	232,512	66,162	121,284	611,738
Accumulated depreciation and impairment	(53,331)	(82,969)	(29,248)	—	(165,548)
Net carrying amount	138,449	149,543	36,914	121,284	446,190

13. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company (continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2006					
At 31 December 2005 and at 1 January 2006:					
Cost	154,132	132,618	28,799	14,798	330,347
Accumulated depreciation and impairment	(31,757)	(56,269)	(11,287)	—	(99,313)
Net carrying amount	122,375	76,349	17,512	14,798	231,034
At 1 January 2006, net of accumulated depreciation and impairment	122,375	76,349	17,512	14,798	231,034
Reclassification	—	(236)	236	—	—
Additions	200	16,991	22,244	24,218	63,653
Disposals	(6)	(113)	(1,039)	(650)	(1,808)
Depreciation provided during the year	(8,039)	(12,650)	(6,964)	—	(27,653)
Transfers	22,857	1,203	—	(24,060)	—
At 31 December 2006, net of accumulated depreciation and impairment	137,387	81,544	31,989	14,306	265,226
At 31 December 2006:					
Cost	177,167	147,365	52,369	14,306	391,207
Accumulated depreciation and impairment	(39,780)	(65,821)	(20,380)	—	(125,981)
Net carrying amount	137,387	81,544	31,989	14,306	265,226

14. PREPAID LAND LEASE PAYMENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at beginning of year	**32,792**	21,840	**8,788**	8,970
Additions	**43,547**	11,508	**43,547**	—
Amortisation provided during the year	**(838)**	(556)	**(318)**	(182)
Carrying amount at end of year	**75,501**	32,792	**52,017**	8,788

15. INTANGIBLE ASSETS

The Group

	Patents, licenses and technical know-how RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2006:			
Cost	16,100	3,627	19,727
Accumulated amortisation	(4,917)	(682)	(5,599)
Net carrying amount	11,183	2,945	14,128
Cost at 1 January 2006, net of accumulated amortisation	11,183	2,945	14,128
Additions	—	2,994	2,994
Amortisation provided during the year	(1,410)	(782)	(2,192)
At 31 December 2006	9,773	5,157	14,930
At 31 December 2006 and at 1 January 2007:			
Cost	16,100	6,621	22,721
Accumulated amortisation	(6,327)	(1,464)	(7,791)
Net carrying amount	9,773	5,157	14,930
Cost at 1 January 2007, net of accumulated amortisation	9,773	5,157	14,930
Acquisition of a subsidiary	—	14	14
Additions	—	3,911	3,911
Amortisation provided during the year	(1,651)	(1,579)	(3,230)
At 31 December 2007	8,122	7,503	15,625
At 31 December 2007			
Cost	16,100	10,566	26,666
Accumulated amortisation	(7,978)	(3,063)	(11,041)
Net carrying amount	8,122	7,503	15,625

15. INTANGIBLE ASSETS (continued)

The Company

	Patents, licenses and technical know-how RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2006:			
Cost	16,100	3,123	19,223
Accumulated amortisation	(4,917)	(668)	(5,585)
Net carrying amount	11,183	2,455	13,638
Cost at 1 January 2006, net of accumulated amortisation	11,183	2,455	13,638
Additions	—	2,438	2,438
Amortisation provided during the year	(1,410)	(524)	(1,934)
At 31 December 2006	9,773	4,369	14,142
At 31 December 2006 and at 1 January 2007:			
Cost	16,100	5,561	21,661
Accumulated amortisation	(6,327)	(1,192)	(7,519)
Net carrying amount	9,773	4,369	14,142
Cost at 1 January 2007, net of accumulated amortisation	9,773	4,369	14,142
Additions	—	3,897	3,897
Amortisation provided during the year	(1,651)	(1,285)	(2,936)
At 31 December 2007	8,122	6,981	15,103
At 31 December 2007			
Cost	16,100	9,458	25,558
Accumulated amortisation	(7,978)	(2,477)	(10,455)
Net carrying amount	8,122	6,981	15,103

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007 RMB'000	2006 RMB'000
Unlisted investments, at cost	**167,568**	127,067

16. INVESTMENTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries as at 31 December 2007 are as follows:

Name	Notes	Place of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Ningbo Company		PRC	RMB48,826,200	100	—	Manufacture and sale of sensors and vacuum sanitary units
Times Electronics		PRC	RMB80,000,000	100	—	Manufacture and sale of electrical control systems for large railway maintenance vehicles
Times Guangchuang		PRC	RMB3,000,000	—	85	Manufacture and sale of power supply equipment for air conditioners of locomotives
Zhuzhou Times Zhuoyue Automotive Electronics Technology Co., Ltd. ("Times Zhuoyue")	(i)	PRC	RMB5,000,000	—	40	Manufacture and sale of automotive electronics products and computer control software
Times Electric, USA LLC		United States of America	US$200,000	100	—	Sale of electric, electronic and mechanical products
Zhuzhou Times Equipment Technology Co., Ltd ("Times Equipment")	(ii)	PRC	RMB11,000,000	100	—	Manufacture and sale of vibration absorber and testing equipment
Beijing CSR Times Information Technology Co., Ltd. ("Times Information")	(iii)	PRC	RMB29,000,000	100	—	Manufacture and sale of train operation safety equipment

(i) In August 2006, Times Zhuoyue was incorporated, and Times Electronics made a capital contribution therein of RMB2,000,000. As such, the Group held a 40% equity interest in Times Zhuoyue, which was an associate of the Company at 31 December 2006.

In January 2007, the Group entered into an agreement with two individual investors who held an aggregate 15% equity interest in Times Zhuoyue, and pursuant to which, the two individual investors conferred their voting rights in Times Zhuoyue to the Group. By which the Group has the power over 55% of the voting rights of Times Zhuoyue, it was under the control of the Group and became a subsidiary of the Group since 1 January 2007.

16. INVESTMENTS IN SUBSIDIARIES (continued)

(ii) On 15 November 2007, the Company entered into a share transfer agreement with Zhuzhou CSR Times New Industry Investment Development Co., Ltd. (株洲南車時代新產業投資發展有限責任公司, "Times Investment") and four individuals for the purchase of the entire equity interest in Times Equipment. Pursuant to the share transfer agreement, Times Investment and the four individuals agreed to sell their respective 96.67%, 1.33%, 0.67%, 0.67% and 0.67% equity interests in Times Equipment to the Company at a cash consideration of RMB3.5 million.

The fair values of the identifiable assets and liabilities of Times Equipment as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

	Fair value recognised on acquisition RMB'000	Carrying amount RMB'000
Property, plant and equipment	1,540	1,540
Intangible assets	14	14
Trade receivables	11,748	11,748
Prepayments, deposits and other receivables	2,256	2,256
Inventories	9,259	9,259
Cash and bank balances	1,362	1,362
Interest-bearing borrowings	(3,000)	(3,000)
Trade payables	(13,695)	(13,695)
Other payables and accruals	(6,936)	(6,936)
Deferred income	(215)	(215)
Tax payable	(772)	(772)
Fair value of net assets acquired	1,561	1,561
Goodwill on acquisition	1,940	1,940
Cash consideration	3,501	3,501

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	(3,501)
Cash and bank balances acquired	1,362
Net outflow of cash and cash equivalents in respect of the acquisition of a subsidiary	(2,139)

(iii) In December 2006, the Company made a prepayment of RMB10 million for capital contribution to a newly established subsidiary, Times Information. In January 2007, the Company made an additional capital contribution of RMB19 million for 100% equity interest therein and the total capital contribution was verified by a local CPA firm in January 2007. Thereafter, Times Information became a new wholly-owned subsidiary of the Company on 19 January 2007.

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments	**—**	—	**63,515**	—
Share of net assets	**79,016**	—	**—**	—
	79,016	—	**63,515**	—

Particulars of the jointly-controlled entity as at 31 December 2007 are as follows:

Name	Place of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
			Direct	Indirect	
Zhuzhou Shiling	PRC	US$14,000,000	50%	—	Manufacture and sale of electric components for rail transit vehicles

17. INTEREST IN A JOINTLY-CONTROLLED ENTITY (continued)

In April 2006, the Company entered into an agreement to acquire a 50% equity interest in Zhuzhou Shiling Transportation Equipment Co., Ltd. (株洲時菱交通設備有限公司, "Zhuhzou Shiling") from ZELRI.

On 31 March 2007, the above-mentioned acquisition was completed and the consideration was RMB63,515,350 in cash, which was equal to 50% of the net asset value of Zhuzhou Shiling as at 31 December 2006 as valued by a PRC valuer. Upon the completion of acquisition, Zhuzhou Shiling became a jointly-controlled entity of the Company.

The excess of the Group's interest in the net fair value of Zhuzhou Shiling's identifiable assets, liabilities and contingent liabilities over the cost of acquisition, which amounted to RMB1.1 million, is included in the Group's share of Zhuzhou Shiling's profits during the year ended 31 December 2007.

The following table illustrates the summarised financial information of the Group's jointly-controlled entities:

	2007	2006
	RMB'000	RMB'000
Share of the jointly-controlled entities' assets and liabilities:		
Non-current assets	**32,312**	—
Current assets	**65,090**	—
Non-current liabilities	**—**	—
Current liabilities	**(18,386)**	—
Net assets	**79,016**	—
Share of the jointly-controlled entities' results:		
Revenue	**49,027**	—
Other income	**1,117**	—
Expenses	**(34,643)**	—
Profits	**15,501**	—

18. INTEREST IN AN ASSOCIATE

	The Group	
	2007	2006
	RMB'000	RMB'000
Share of net assets	**—**	1,920

The balance at 31 December 2006 represents the Group's 40% share of the net assets of Times Zhuoyue as at 31 December 2006. Further details of Times Zhuoyue are disclosed in note 16(i) to the financial statements.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	The Group	
	2007	2006
	RMB'000	RMB'000
At cost:		
Unlisted equity investments	**400**	1,200

20. INVENTORIES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**255,826**	201,099	**212,440**	125,269
Work in progress	**83,029**	51,194	**78,280**	36,292
Finished goods	**157,203**	155,939	**140,284**	144,267
Consumables and packing materials	**1,225**	750	**812**	750
	497,283	408,982	**431,816**	306,578
Less: Provision for obsolete inventories	**(57,762)**	(51,825)	**(54,151)**	(39,374)
	439,521	357,157	**377,665**	267,204

21. TRADE RECEIVABLES

The Group generally stipulates payment upon delivery in sales contracts entered into with customers. However, in the opinion of the directors, the Group has effectively granted an average credit period of around six months to its customers after taking into account the practice of the industry in which the Group conducts its business.

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables from:				
CSRG and its subsidiaries (other than the Group)	**69,742**	89,208	**63,551**	67,450
Subsidiaries	**—**	—	**112,125**	23,874
Jointly-controlled entity	**27**	—	**4**	—
Third parties	**477,216**	453,983	**279,377**	368,608
	546,985	543,191	**455,057**	459,932
Less: Provision for impairment of receivables	**(45,305)**	(35,038)	**(33,469)**	(26,702)
	501,680	508,153	**421,588**	433,230

An aged analysis of the trade receivables, net of provision for impairment of receivables, is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**441,964**	477,330	**375,771**	412,909
Over 1 year but within 2 years	**59,104**	31,899	**46,432**	19,423
Over 2 years but within 3 years	**17,559**	17,728	**9,444**	15,345
Over 3 years	**28,358**	16,234	**23,410**	12,255
	546,985	543,191	**455,057**	459,932
Less: Provision for impairment of receivables	**(45,305)**	(35,038)	**(33,469)**	(26,702)
	501,680	508,153	**421,588**	433,230

The amounts due from CSRG and its subsidiaries included in the Group's and the Company's trade receivables, and the amounts due from subsidiaries and the amounts due from jointly-controlled entity included in the Company's trade receivables are unsecured, interest-free and repayable on demand.

21. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**35,038**	18,296	**26,702**	14,112
Impairment losses recognised	**10,242**	16,762	**6,857**	12,610
Amount written off as uncollectible	**(21)**	(20)	**(18)**	(20)
Impairment losses reversed	**(72)**	—	**(72)**	—
Acquisition of a subsidiary	**118**	—	**—**	—
	45,305	35,038	**33,469**	26,702

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB6,882,161 (2006: RMB4,572,477) with a carrying amount of RMB10,224,610 (2006: RMB4,572,477). The individually impaired trade receivables relate to customers that were in default or delinquency in payments and only a portion of the receivables is expected to be recovered. The Group does not hold collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**352,484**	413,248	**296,646**	334,774
Less than 6 months past due	**—**	—	**—**	—
6 months to 1 year past due	**—**	—	**—**	—
	352,484	413,248	**296,646**	334,774

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

22. NOTES RECEIVABLE

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**165,692**	70,779	**151,032**	24,918
Over 3 months but within 6 months	**92,508**	73,074	**58,238**	61,954
	258,200	143,853	**209,270**	86,872

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments, deposits and other receivables:				
CSRG and its subsidiaries (other than the Group)	**23,069**	4,531	**23,069**	4,517
Subsidiaries	**—**	—	**54,734**	96,004
Third parties	**142,722**	92,452	**135,695**	83,557
	165,791	96,983	**213,498**	184,078
Less: Provision for impairment of receivables	**(1,309)**	(895)	**(600)**	(195)
	164,482	96,088	**212,898**	183,883

The amounts due from CSRG and its subsidiaries included in the Group's and the Company's prepayments, deposits and other receivables, and the amounts due from subsidiaries included in the Company's prepayments, deposits and other receivables are unsecured, interest-free and repayable on demand.

Other receivables at 31 December 2007 included a receivable from an independent third party which amounted to RMB65 million, and this receivable is interest bearing at 1.5% per month with a maturity date on 25 June 2008. The repayment of this receivable and interest thereon is guaranteed by the local district government in which the borrower entity is domiciled.

24. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**710,610**	2,264,279	**626,718**	2,233,470
Time deposits	**800,000**	—	**800,000**	—
	1,510,610	2,264,279	**1,426,718**	2,233,470
Less: Pledged deposits against trade finance facilities	**(7)**	(2,969)	**(7)**	(704)
Cash and cash equivalents in the consolidated balance sheet	**1,510,603**	2,261,310	**1,426,711**	2,232,766
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**(800,000)**	—	**(800,000)**	—
Cash and cash equivalents in the consolidated cash flow statement	**710,603**	2,261,310	**626,711**	2,232,766
Cash and bank balances and time deposits denominated in:				
—RMB	**1,486,536**	133,059	**1,402,870**	102,439
—Hong Kong dollars	**5,335**	2,130,075	**5,335**	2,130,075
—United Stated dollars	**704**	1,145	**478**	956
—European currency units	**7,651**	—	**7,651**	—
—Japanese Yen	**10,384**	—	**10,384**	—

The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and two years, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term or long-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of cash and cash equivalents, and the pledged deposits approximate to their fair values.

25. TRADE PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables to:				
CSRG and its subsidiaries				
(other than the Group)	**11,756**	57,562	**9,622**	56,170
Subsidiaries	**—**	—	**102,155**	56,210
Jointly-controlled entity	**15,459**	—	**15,459**	—
Third parties	**194,465**	172,750	**144,934**	140,938
	221,680	230,312	**272,170**	253,318

The amounts due to CSRG and its subsidiaries included in the Group's and the Company's trade payables, and the amounts due to subsidiaries included in the Company's trade payables are unsecured, interest-free and repayable on demand. The normal credit period for trade payables is three months.

An aged analysis of the trade payables is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**187,725**	170,674	**238,275**	195,646
Over 3 months but within 1 year	**24,894**	43,475	**26,413**	42,348
Over 1 year but within 2 years	**7,046**	15,142	**6,300**	14,534
Over 2 years but within 3 years	**1,287**	657	**750**	692
Over 3 years	**728**	364	**432**	98
	221,680	230,312	**272,170**	253,318

26. NOTES PAYABLE

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**13,860**	36,475	**13,860**	30,145
Over 3 months but within 6 months	**34,312**	62,197	**34,312**	62,197
	48,172	98,672	**48,172**	92,342

27. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receipts in advance	**75,368**	62,980	**71,926**	60,449
Other payables	**21,332**	45,591	**9,547**	31,428
Accruals	**41,199**	56,430	**33,742**	44,815
Amounts due to CSRG and its subsidiaries (other than the Group)	**11,256**	44,697	**11,246**	43,920
Subsidiaries	**—**	—	**10,150**	4,558
	149,155	209,698	**136,611**	185,170

The other payables are non-interest-bearing and have an average term of three months. The amounts due to CSRG and its subsidiaries included in the Group's and the Company's other payables and accruals, and the amounts due to subsidiaries included in the Company's other payables and accruals are unsecured, interest-free and repayable on demand.

28. PROVISION FOR WARRANTIES

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**36,898**	31,898	**26,095**	22,115
Provision made during the year	**32,206**	33,273	**31,195**	30,588
Amounts utilised	**(23,458)**	(28,273)	**(21,829)**	(26,608)
At end of year	**45,646**	36,898	**35,461**	26,095

The Group generally provides one to three year warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

29. INTEREST-BEARING BANK AND OTHER BORROWINGS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans:				
Secured	**—**	—	**—**	—
Unsecured	**—**	364,537	**—**	364,537
	—	364,537	**—**	364,537
Other borrowings -				
Unsecured	**—**	—	**—**	—
	—	364,537	**—**	364,537
Represented by:				
Repayable within one year				
or on demand:				
Bank loans	**—**	364,537	**—**	364,537
Other borrowings	**—**	—	**—**	—
	—	364,537	**—**	364,537

The Group's and the Company's bank loans of approximately RMB364,537,000 as at 31 December 2006 were due and repaid in 2007.

30. DEFERRED GOVERNMENT GRANTS

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current portion	**14,211**	—	**13,996**	—
Long term portion	**—**	—	**—**	—
	14,211	—	**13,996**	—

The movements of the deferred government grants are analysed as follows:

	The Group	The Company
	RMB'000	RMB'000
At 1 January 2007	—	—
Entitled during the year	14,211	13,996
Recognised as other income during the year	—	—
At 31 December 2007	14,211	13,996

31. DEFERRED TAX ASSETS

The movements in the deferred tax assets during the year are as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	Warranties claim provision	Warranties claim provision	**Warranties claim provision**	Warranties claim provision
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**—**	—	**—**	—
Deferred tax credited to the income statement during the year (note 9)	**6,956**	—	**5,593**	—
At 31 December	**6,956**	—	**5,593**	—

32. ISSUED SHARE CAPITAL

	2007 RMB'000	2006 RMB'000
Registered, issued and fully paid		
– domestic shares of RMB1.00 each	**628,148**	628,148
– H shares of RMB1.00 each	**456,108**	456,108
	1,084,256	1,084,256

A summary of the movements in the issued share capital is as follows:

	Notes	Domestic shares of RMB1.00 each RMB'000	H Shares of RMB1.00 each RMB'000	Total RMB'000
1 January 2006		669,612	—	669,612
Issuance of new H shares upon listing	(i)	—	360,560	360,560
Domestic shares converted into H shares upon listing	(i)	(36,056)	36,056	—
Issuance of new H shares upon full exercise of the Over-allotment Option	(ii)	—	54,084	54,084
Domestic shares converted into H shares upon full exercise of the Over-allotment Option	(ii)	(5,408)	5,408	—
At 31 December 2006 and 1 January 2007		628,148	456,108	1,084,256
At 31 December 2007		628,148	456,108	1,084,256

Notes

(i) On 20 December 2006, the Company issued 360,560,000 H shares with a par value of RMB1.00 each to the public by way of placement and offer at a price of HK$5.30 per share (equivalent to approximately RMB5.330). In addition, 36,056,000 domestic shares held by ZELRI, CSR Qishuyan Locomotive & Rolling Stock Works (中國南車集團戚墅堰機車車輛廠, "CSR Qishuyan") and New Leap Transportation Equipment Investment & Leasing Co., Ltd. (新力博交通裝備投資租賃有限公司, "New Leap"), which was formerly known as New Leap Communication Equipment Invest Development Co., Ltd. (新力博交通裝備投資發展有限公司) were converted into 36,056,000 H shares and transferred to the PRC National Council for the Social Security Fund.

(ii) On 28 December 2006, the Company issued an additional 54,084,000 H shares with a par value of RMB 1.00 each, to the public by way of placement at a price of HK$5.30 per share (equivalent to approximately RMB5.327 per share) as a result of the full exercise of the Over-allotment Option (as defined in the Company's prospectus dated 8 December 2006). In addition, 5,408,000 domestic shares held by ZELRI, CSR Qishuyan and New Leap were converted into 5,408,000 H shares and transferred to the PRC National Council for the Social Security Fund.

The proceeds received from the issue of the 360,560,000 new H shares and the additional 54,084,000 H shares amounted to RMB2,209,968,000. Part of the proceeds of RMB414,644,000 was recorded as the share capital, and the remaining balance of the proceeds of RMB1,795,324,000 was recorded as capital reserve.

33. RESERVES

The Group

The amount of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity in these consolidated financial statements.

The Company

	Notes	Capital reserve RMB'000	Statutory reserve RMB'000	Proposed final dividend RMB'000	Retained profits RMB'000	Total RMB'000
1 January 2006		(186,195)	13,134	—	13,547	(159,514)
Profit for the year		—	—	—	268,673	268,673
Total income and expense for the year		—	—	—	268,673	268,673
Issuance of new H shares	32(i)&(ii)	1,795,324	—	—	—	1,795,324
Share issuing expenses		(122,781)	—	—	—	(122,781)
Transfer from retained profits		—	25,383	—	(25,383)	—
Special dividends	10(i)	—	—	—	(167,538)	(167,538)
Proposed final 2006 dividend	10(ii)	—	—	36,865	(36,865)	—
At 31 December 2006 and 1 January 2007		1,486,348*	38,517*	36,865	52,434*	1,614,164
Profit for the year		—	—	—	227,764	227,764
Total income and expense for the year		—	—	—	227,764	227,764
Adjustment of appropriation to reserve upon adoption of new accounting standards		—	(10,039)	—	10,039	—
Final 2006 dividend declared		—	—	(36,865)	83	(36,782)
Transfer from retained profits		—	23,809	—	(23,809)	—
Proposed 2007 final dividend	10(ii)	—	—	157,217	(157,217)	—
At 31 December 2007		1,486,348*	52,287*	157,217	109,294*	1,805,146

* These reserve accounts comprise the reserves of RMB1,647,929,000 (2006: RMB1,577,299,000) in the Company's balance sheet.

33. RESERVES (continued)

The Company (continued)

Notes:

In accordance with the articles of association of the Company, which is applicable from 1 January 2006, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRS.

Under PRC Company Law and the Company's articles of association, net profit after tax can only be distributed as dividends after allowances have been made for the following:

(a) Making up prior years' cumulative losses, if any.

(b) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates to 50% of the Company's issued share capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

    The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of this reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company before the capitalisation.

(c) Allocations to the discretionary common reserve, if approved by the shareholders.

The statutory common reserve fund and discretionary common reserve cannot be used for the purposes other than those for which they are created and are not distributable as cash dividends.

The Company is under statutory requirement to make appropriation to the statutory common reserve based on 10% of its after-tax profit determined under PRC GAAP. The Company has adjusted its PRC GAAP retained earnings at 31 December 2006 retrospectively upon adoption of new PRC accounting standards which is effective on 1 January 2007. Accordingly, the Company's appropriation to statutory common reserve fund at 31 December 2006 has been adjusted by RMB10,039,000 to take into account the effect of the adjustment to PRC GAAP retained earnings.

During the year, the directors of the Company approved the appropriation of RMB23,809,000 (2006: RMB25,383,000) to the statutory common reserve fund, which represented 10% of the net profit of the Company for the year ended 31 December 2007, as determined under PRC GAAP.

For dividend purposes, the amount which the Company's PRC subsidiaries can legally distribute by way of a dividend is determined with reference to their profits available for distribution, as reflected in their respective financial statements that are prepared in accordance with PRC GAAP. These profits differ from those dealt with in the financial statements which are prepared in accordance with IFRS.

34. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2007, the Group settled the trade payable of RMB9,547,000 to its suppliers through a set-off against the receivables from its customers.

35. CONTINGENT LIABILITIES

As at 31 December 2007, neither the Group nor the Company had any significant contingent liabilities.

36. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases certain of its property, plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from approximately one to three years.

As at 31 December 2007, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**2,055**	1,867	**1,878**	1,867
In the second to third years	**21**	1,867	**21**	1,867
	2,076	3,734	**1,899**	3,734

(ii) As lessee

The Group leases certain of its property, plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from approximately one to three years.

As at 31 December 2007, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**590**	9,578	**575**	9,578
In the second to third years	**120**	9,390	**120**	9,390
	710	18,968	**695**	18,968

37. COMMITMENTS

The Group and the Company had the following capital commitments at the balance sheet date:

	The Group		The Company	
	2007	2006	**2007**	2006
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Acquisition of items of property, plant and equipment	**114,236**	38,232	**79,676**	29,607
Acquisition of items of Intangible assets	**142,222**	—	**142,222**	—
Total	**256,458**	38,232	**221,898**	29,607
Authorised, but not contracted for:				
Acquisition of items of property, plant and equipment	**186,045**	—	**156,283**	—

In July 2006, the Company entered into an agreement to acquire a 17% equity interest in Siemens Traction Equipment Ltd., Zhuzhou ("Siemens Zhuzhou") from ZELRI at a consideration of 17% of the sum of a base price and an adjustment. The base price is the higher amount of (i) Siemens Zhuzhou's net assets as at 31 December 2005, as valued by a valuation agency designated by both parties and (ii) Siemens Zhuzhou's net assets on its accounts as at 31 December 2005. The adjustment is equal to the difference of Siemens Zhuzhou's net assets on its accounts between 31 December 2005 and the last day of the month immediately preceding the completion of the business registration of the share transfer, as reviewed by an auditor approved by both ZELRI and the Company. The acquisition has not yet been completed at the date of the financial statements and the estimated consideration for the acquisition will be RMB20 million.

38. RELATED PARTY TRANSACTIONS

(i) In addition to those disclosed in elsewhere in the financial statements, the Group had the following material transactions with related parties:

	The Group	
	2007	2006
	RMB'000	RMB'000
Transactions with CSRG and its subsidiaries:		
Sales of goods	**632,428**	296,258
Purchases of materials and components	**84,596**	162,404
Sales of property, plant and machinery	**322**	673
Purchases of property, plant and machinery	**57,804**	2,142
Sales of electricity	**960**	762
Purchases of electricity	**—**	—
Fees paid for usage of property, plant and machinery	**7,731**	9,152
Supporting service fee	**4,300**	6,781
Rental income from items of property, plant and machinery	**1,867**	2,221

38. RELATED PARTY TRANSACTIONS (continued)

	The Group	
	2007	2006
	RMB'000	RMB'000
Transactions with a jointly-controlled entity:		
Sales of goods	**108**	—
Purchases of materials and components	**97,590**	—

In the opinion of the directors, the above transactions arise from the ordinary course of the Group's business and were conducted in accordance with mutually agreed terms.

(ii) Details of the Group's balances with relately parties as at the balance sheet date are disclosed in notes 21, 23, 25 and 27 to the financial statements.

(iii) Compensation of key management personnel of the Company:

	The Group	
	2007	2006
	RMB'000	RMB'000
Short term employee benefits	**2,538**	3,093
Post-employment benefits	**60**	62
Total compensation paid to key management personnel	**2,598**	3,155

Further details of directors' and supervisors' emoluments are included in note 8 to the financial statements.

39. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

	The Group					
	2007			2006		
	Loans and receivables RMB'000	**Available-for-sale financial assets RMB'000**	**Total RMB'000**	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Total RMB'000
Financial assets						
Available-for-sale financial assets	**—**	**400**	**400**	—	1,200	1,200
Trade receivables	**501,680**	**—**	**501,680**	508,153	—	508,153
Notes receivable	**258,200**	**—**	**258,200**	143,853	—	143,853
Financial assets included in prepayments, deposits and other receivables	**164,482**	**—**	**164,482**	96,088	—	96,088
Pledged deposits	**7**	**—**	**7**	2,969	—	2,969
Cash and cash equivalents	**1,510,603**	**—**	**1,510,603**	2,261,310	—	2,261,310
	2,434,972	**400**	**2,435,372**	3,012,373	1,200	3,013,573

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

	The Group	
	2007	2006
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank loans	**—**	364,537
Trade payables	**221,680**	230,312
Notes payable	**48,172**	98,672
Financial liabilities included in other payables and accruals	**149,155**	209,698
	419,007	903,219

	The Company	
	2007	2006
	Loans and receivables	Loans and receivables
	RMB'000	RMB'000
Financial assets		
Trade receivables	**421,588**	433,230
Notes receivable	**209,270**	86,872
Financial assets included in prepayments, deposits and other receivables	**212,898**	183,883
Pledged deposits	**7**	704
Cash and cash equivalents	**1,426,711**	2,232,766
	2,270,474	2,937,455

39. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

	The Company	
	2007	2006
	Financial liabilities at amortised cost	Financial liabilities at amortised cost
	RMB'000	RMB'000
Financial liabilities		
Interest-bearing bank loans	**—**	364,537
Trade payables	**272,170**	253,318
Notes payable	**48,172**	92,342
Financial liabilities included in other payables and accruals	**136,611**	185,170
	456,953	895,367

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans, cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise from its operations. The Group did not enter into any derivative activities during the year ended 31 December 2006 and 2007.

The main risks arising from the Group's financial instruments are interest rate risk, foreign exchange risk, credit risk, liquidity risk. The directors review and agree policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's cash and bank balances. The Group did not have any borrowings at 31 December 2007.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of borrowings, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no impact on the Group's equity.

	Increase/(decrease) in basis points	Increase/ (decrease) in profit before tax	
		2007	2006
		RMB'000	RMB'000
Interest rates	100	**—**	(1,213)
Interest rates	(100)	**—**	1,213

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The businesses of the Group are principally conducted in the PRC. While most of the transactions of the Group are principally conducted in RMB, certain of their purchases, sales and borrowings are denominated in other currencies including mainly the United States dollar, and Hong Kong dollar. Fluctuation of exchange rates of RMB against foreign currencies can affect the Group's results of operations.

The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation. In addition, the Group tries to subscribe the contracts denominated in foreign currencies which are relatively stable such as European currency units and Great Britain pounds.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to change in the fair value of monetary assets and liabilities).

	Increase/ (decrease)	**Increase/ (decrease) in profit before tax**	
	%	**2007 RMB'000**	2006 RMB'000
United States dollar			
If RMB strengthens against United States dollar	5	**(1,087)**	1,249
If RMB weakens against United States dollar	(5)	**1,087**	(1,249)
Hong Kong dollar			
If RMB strengthens against Hong Kong dollar	5	**(486)**	(106,639)
If RMB weakens against Hong Kong dollar	(5)	**486**	106,639

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents and other receivables, arises from default of the counterparty with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 21 to the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purpose.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

The Group

	2007				
	Within one year or on demand RMB'000	**In the second year RMB'000**	**In the third to five years RMB'000**	**Beyond five years RMB'000**	**Total RMB'000**
Interest-bearing bank loans	**—**	**—**	**—**	**—**	**—**
Trade payables	**221,680**	**—**	**—**	**—**	**221,680**
Notes payable	**48,172**	**—**	**—**	**—**	**48,172**
Other payables and accruals	**149,155**	**—**	**—**	**—**	**149,155**
	419,007	**—**	**—**	**—**	**419,007**

	2006				
	Within one year or on demand RMB'000	In the second year RMB'000	In the third to five years RMB'000	Beyond five years RMB'000	Total RMB'000
Interest-bearing bank loans	364,537	—	—	—	364,537
Trade payables	230,312	—	—	—	230,312
Notes payable	98,672	—	—	—	98,672
Other payables and accruals	209,698	—	—	—	209,698
	903,219	—	—	—	903,219

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The Company

	2007				
	Within one year or on demand RMB'000	**In the second year RMB'000**	**In the third to five years RMB'000**	**Beyond five years RMB'000**	**Total RMB'000**
Interest-bearing bank loans	**—**	**—**	**—**	**—**	**—**
Trade payables	**272,170**	**—**	**—**	**—**	**272,170**
Notes payable	**48,172**	**—**	**—**	**—**	**48,172**
Other payables and accruals	**136,611**	**—**	**—**	**—**	**136,611**
	456,953	**—**	**—**	**—**	**456,953**

	2006				
	Within one year or on demand RMB'000	In the second year RMB'000	In the third to five years RMB'000	Beyond five years RMB'000	Total RMB'000
Interest-bearing bank loans	364,537	—	—	—	364,537
Trade payables	253,318	—	—	—	253,318
Notes payable	92,342	—	—	—	92,342
Other payables and accruals	185,170	—	—	—	185,170
	895,367	—	—	—	895,367

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2007 and 31 December 2006.

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

	The Group	
	2007	2006
	RMB'000	RMB'000
Interest-bearing borrowings	**—**	364,537
Trade payables	**221,680**	230,312
Notes payable	**48,172**	98,672
Other payables and accruals	**149,155**	209,698
Less: Cash and cash equivalents	**(1,510,603)**	(2,261,310)
Net assets	**(1,091,596)**	(1,358,091)
Equity attributable to equity holders	**3,157,193**	2,846,586
Capital and net assets	**2,065,597**	1,488,495
Gearing ratio	**(53%)**	(91%)

41. POST BALANCE SHEET EVENTS

The Company has entered into a non-binding letter of intent dated 28 March 2008 in respect of the possible acquisition, at the Company's option, of either 80% or 100% of the outstanding common equity shares of Dynex Power Inc. at a proposed price of Canadian dollar 0.55 per share. The consideration thereof is around RMB123 million or RMB154 million.

The directors are of the opinion that there can be no assurance that any definitive agreement will be entered into, that any proposed acquisition will be accepted or approved by the shareholders of Dynex Power Inc. or that any transaction will be completed as a result of the execution of the letter of intent.

42. COMPARATIVE AMOUNTS

Prior year reclassification adjustments relating to administrative expenses and other operating expenses have been made, where exchange losses and provision for impairment of receivables amounting to RMB1,442,000 and RMB17,520,000 respectively have been reclassified from administrative expenses to other operating expenses to conform with the current year's presentation.

43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 21 April 2008.

Glossary

"Articles"	the Articles of Association of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Code on Corporate Governance Practices
"Company"	株洲南車時代電氣股份有限公司 (Zhuzhou CSR Times Electric Co., Ltd.)
"CSR"	中國南車股份有限公司 (China South Locomotive & Rolling Stock Corporation Limited), a joint stock limited liability company established on 28 December 2007. CSR is directly and indirectly wholly-owned by CSRG and holds the entire equity interest in the Parent Company
"CSRG"	中國南方機車車輛工業集團公司 (China South Locomotive & Rolling Stock Industry (Group) Corporation), a PRC State-owned enterprise
"CSRG Group"	CSRG and its subsidiaries, excluding the Parent Group
"CSR Sifang Co., Ltd."	南車四方機車車輛股份有限公司 (CSR Sifang Locomotive & Rolling Stock Co., Ltd.), held as to 90.04% by CSR
"CSR Zhuzhou"	南車株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Co., Ltd.), formerly known as 中國南車集團株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Company, Ltd.), held as to 69.01% by CSR, as to 16.31% by the Parent Company, as to 13.05% by New Leap and as to 1.63% by 株洲聯誠集團有限責任公司 (Zhuzhou Lince Group Co., Ltd.); one of the Promoters of the Company
"Directors"	the directors of the Company
"Group"	the Company and its subsidiaries
"Kunming China Railway"	昆明中鐵大型養路機械集團有限公司 (China Railway Large Maintenance Machinery Co., Ltd. Kunming), held as to 100% by 中國鐵建股份有限公司 (China Railway Construction Corporaton Limited), one of the Promoters of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"NERCC"	株洲變流技術國家工程研究中心有限公司 (Zhuzhou National Engineering Research Center of Converters Co., Ltd.), formerly known as 株洲變流技術國家工程研究中心 (Zhuzhou National Engineering Research Center of Converters), a company wholly-owned by the Parent Company

Glossary

"New Leap"	新力摶交通裝備投資租賃有限公司 (New Leap Transportation Equipment Investment & Leasing Co., Ltd.), formerly known as 新力搏交通裝備投資發展有限公司(New Leap Communication Equipment Invest Development Co., Ltd.), a wholly-owned subsidiary of CSR, and one of the Promoters of the Company
"Ningbo Company"	寧波南車時代傳感技術有限公司 (Ningbo CSR Times Sensor Technology Company, Ltd.), a wholly-owned subsidiary of the Company
"Parent Company" or "ZELRI"	南車株洲電力機車研究所有限公司 (CSR Zhuzhou Electric Locomotive Research Institute Co,. Ltd.), formerly known as 中國南車集團株洲電力機車研究所 (CSR Zhuzhou Electric Locomotive Research Institute), a wholly-owned subsidiary of CSR; one of the Promoters and also the controlling shareholder of the Company
"Parent Group"	the Parent Company and its subsidiaries (excluding the Group)
"PRC"	the People's Republic of China
"Promoters"	Promoters of the Company, being ZELRI, CSR Zhuzhou, New Leap, Qishuyan Works and Kunming China Railway
"Qishuyan Works"	中國南車集團戚墅堰機車車輛廠 (CSR Qishuyuan Locomotive & Rolling Stock Works), a wholly-owned subsidiary of CSRG and one of the Promoters of the Company
"Shiling"	株洲時菱交通設備有限公司 (Zhuzhou Shiling Transportation Equipment Company, Ltd.), held as to 50% by the Company, as to 40% by Mitsubishi Electric Corporation and as to 10% by Mitsubishi Electric (China) Ltd.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"the year" or "the reporting period"	the year ended 31 December 2007
"Times Electronics"	株洲時代電子技術有限公司 (Zhuzhou Times Electronics Technology Co., Ltd.), a wholly-owned subsidiary of the Company
"Times Equipment"	株洲時代裝備技術有限公司 (Zhuzhou Times Equipment Technology Co., Ltd.), a wholly-owned subsidiary of the Company. The Company acquired its entire equity interests on 15 November 2007. 96.67% of its shares was held by Times Investment before the acquisition
"Times Guangchuang"	株洲時代廣創變流技術有限公司 (Zhuzhou Times Guangchuang Converter Technology Co., Ltd.), owned as to 85% by Times Electronics
"Times Investment"	株洲南車時代新產業投資發展有限公司 (Zhuzhou CSR Times New Industry Investment Development Co., Ltd.), ZELRI directly and indirectly held 100% of its shareholding

"Times New Materials"	株洲時代新材料科技股份有限公司 (Zhuzhou Times New Materials Technology Co., Ltd.), a company listed on the Shanghai Stock Exchange
"Times Zhuoyue"	株洲時代卓越汽車電子技術有限公司 (Zhuzhou Times Zhuoyue Automotive Electronics Technology Co., Ltd.), Times Electronics held 40% of its shareholding. Besides, Times Electronics entered into an agreement with two individual investors who held an aggregate of 15% equity interest in Times Zhuoyue, and pursuant to which, the two individual investors conferred their voting rights in Time Zhuoyue to Times Electronics.
"Zhuzhou CSR Electric"	株洲南車電機股份有限公司 (Zhuzhou CSR Electric Co., Ltd.), the holding company of which is CSR Zhuzhou

Basic Corporate Information

1	Name in Chinese	株洲南車時代電氣股份有限公司
	Name in English	Zhuzhou CSR Times Electric Co., Ltd.
2	Authorized representatives	Liao Bin Tang Tuong Hock, Gabriel
3	Joint company secretaries	Lu Penghu Tang Tuong Hock, Gabriel
	Qualified accountant	Tang Tuong Hock, Gabriel
	Registered office	Times Road, Shifeng District, Zhuzhou, Hunan Province, PRC, 412001
	Telephone	+ 86 733 849 8028
	Fax	+ 86 733 849 3447
	Website	http://www.timeselectric.cn
	Principal place of business in Hong Kong	Unit 1106, 11th Floor, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong,
4	Listing information	H Share The Stock Exchange of Hong Kong Limited Stock Code : 3898 Short Name of Stock : CSR Times Electric
5	H share registrar	Computershare Hong Kong Investor Services Limited Shops 1712-1716, 17/F., Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
6	Legal advisers	Jones Day Grandall Legal Group
7	Auditors	Ernst & Young
8	Compliance Advisor	Macquarie Capital Securities Limited Polaris Capital (Asia) Limited