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)

Interim Report 2007

CONTENTS

RESULTS IN BRIEF

The Board of Directors ("Board") of Zhuzhou CSR Times Electric Co., Ltd. (the "Company") is pleased to announce the unaudited operating results of the Company and its subsidiaries (the "Group" or "we") for the six months ended 30 June 2007 which have been prepared in accordance with International Financial Reporting Standards. This interim report is unaudited, but has been reviewed by the Audit Committee of the Company.

The revenue of the Group for the six months ended 30 June 2007 amounted to RMB 718,705,000 (for the six months ended 30 June 2006: RMB 633,927,000), representing an increase of 13.4% over the same period last year. Profit attributable to equity holders of parent amounted to RMB161,127,000 (for the six months ended 30 June 2006: RMB 153,274,000), representing an increase of 5.1% over the same period of last year. Basic earnings per share amounted to RMB0.15 (for the six months ended 30 June 2006: RMB0.23).

Business Review

Review on the results for the six months ended 30 June 2007

Starting from 2007, the Ministry of Railways will mainly focus on procuring EMUs, AC driven electric locomotives and diesel locomotives.

In April 2007, the Ministry of Railways introduced the sixth round of train speed increase and 200 km/h EMUs were put into operation for the first time. During this round of speed increase, electrical control system for 200 km/h EMUs manufactured by the Company performed well, and represented 70% of the total 200 km/h EMUs supplied and used in China.

Outlook for the second half year

In the second half of the year the Company anticipates the following developments:

– Delivery of electrical systems related products for 300 km/h EMUs will begin.

– The Company anticipates to obtain new orders for electrical systems for 200 km/h EMUs.

– The Company anticipates market breakthrough in relation to products for high power AC driven electric locomotive and diesel locomotive.

– The Company anticipates market breakthrough in relation to its self-developed electric system products for A/C based urban rail vehicles, and expects to supply the first self-developed electric driven system to be used in China's urban rail network.

– The Company will continue to focus on the acquisition of foreign technology and its localization.

– The Company anticipates the completion of its specialised manufacturing base, and will have in place dedicated manufacturing facilities for converters, control systems, and train operation safety equitypment related products, thus resulting in substantial increase in the Company's production capacity.

The Company is fully confident of its future. The Company will strive to create greater value, and share the fruits of its steady development with all its shareholders.

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	For the six months ended 30 June 2007 (Unaudited) RMB'000	2006 (Audited) RMB'000
REVENUE	3	**718,705**	633,927
Cost of sales		**(419,818)**	(326,466)
Gross profit		**298,887**	307,461
Other revenue and gains	3	**43,582**	21,478
Selling and distribution costs		**(48,410)**	(56,504)
Administrative expenses		**(138,249)**	(106,268)
Other operating expenses, net		**(29)**	(306)
Finance costs	5	**(3,794)**	(7,320)
Share of profit of a jointly-controlled entity		**1,728**	—
PROFIT BEFORE TAX	4	**153,715**	158,541
Tax	6	**7,191**	(244)
PROFIT FOR THE PERIOD		**160,906**	158,297
Attributable to:			
Equity holders of the parent		**161,127**	153,274
Minority interests		**(221)**	5,023
		160,906	158,297
Dividend	7	**Nil**	167,538
Earnings per share attributable to ordinary equity holders of the parent	8		
Basic		**RMB0.15**	RMB0.23
Diluted		**N/A**	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

	Notes	**As at 30 June 2007 (Unaudited) RMB'000**	As at 31 December 2006 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	9	**436,259**	367,884
Prepaid lease payments		**32,440**	32,792
Intangible assets		**13,919**	14,930
Interest in an associate		**—**	1,920
Interest in a jointly-controlled entity		**65,244**	—
Available-for-sale financial assets		**400**	1,200
Deferred tax assets		**7,283**	—
Total non-current assets		**555,545**	418,726
CURRENT ASSETS			
Inventories		**334,474**	357,157
Trade receivables	10	**620,481**	508,153
Notes receivable	11	**220,113**	143,853
Prepayments, deposits and other receivables		**79,036**	96,088
Pledged deposits	12	**835**	2,969
Cash and cash equivalents	12	**1,746,866**	2,261,310
Total current assets		**3,001,805**	3,369,530
CURRENT LIABILITIES			
Trade payables	13	**314,117**	230,312
Notes payable	14	**19,350**	98,672
Other payables and accruals		**134,964**	209,698
Provision for warranties		**49,614**	36,898
Interest-bearing bank and other borrowings		**27,416**	364,537
Dividend payable		**36,782**	—
Tax payable		**92**	129
Total current liabilities		**582,335**	940,246
NET CURRENT ASSETS		**2,419,470**	2,429,284
TOTAL ASSETS LESS CURRENT LIABILITIES		**2,975,015**	2,848,010
NET ASSETS		**2,975,015**	2,848,010

CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

	As at 30 June 2007 *(Unaudited)* *RMB'000*	As at 31 December 2006 *(Audited)* *RMB'000*
EQUITY		
Equity attributable to equity holders of the parent		
Issued capital	**1,084,256**	1,084,256
Reserves	**1,886,675**	1,725,465
Proposed dividend	—	36,865
	2,970,931	2,846,586
Minority interests	**4,084**	1,424
TOTAL EQUITY	**2,975,015**	2,848,010

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the parent							
	Issued share capital	Capital reserve	Statutory reserves	Proposed dividend	Retained profits	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance as at 1 January 2006	669,612	(176,913)	13,134	—	124,333	630,166	26,041	656,207
Profit for the period	—	—	—	—	153,274	153,274	5,023	158,297
Acquisition of additional interests in subsidiaries	—	—	—	—	—	—	(20,569)	(20,569)
Dividends paid to minority shareholders	—	—	—	—	—	—	(8,115)	(8,115)
Transfer to reserves	—	—	14,278	—	(14,278)	—	—	—
Proposed dividend	—	—	—	167,538	(167,538)	—	—	—
Balance as at 30 June 2006 (audited)	669,612	(176,913)	27,412	167,538	95,791	783,440	2,380	785,820
Balance as at 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 period	—	—	—	—	161,127	161,127	(221)	160,906
Transfer to reserves	—	—	12,242	—	(12,242)	—	—	—
Change of an associate to a subsidiary	—	—	—	—	—	—	2,881	2,881
2006 final dividend	—	—	—	(36,865)	83	(36,782)	—	(36,782)
Balance as at 30 June 2007 (unaudited)	1,084,256	1,495,630	50,759	—	340,286	2,970,931	4,084	2,975,015

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
NET CASH INFLOW/(OUTFLOW) FROM OPERATING ACTIVITIES	**(9,326)**	123,569
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	**(946,223)**	(81,610)
NET CASH OUTFLOW FROM FINANCING ACTIVITIES	**(340,174)**	(89,590)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(1,295,723)**	(47,631)
Cash and cash equivalents at beginning of period	**2,261,310**	165,126
Effect of foreign exchange rate changes, net	**(18,721)**	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**946,866**	117,495
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Cash and bank balances	**946,866**	117,495

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1.1 Basis of preparation

The unaudited condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") No. 34 "Interim Financial Reporting" and Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("the Listing Rules"). International Financial Reporting Standards ("IFRSs") comprises standards and interpretations approved by the International Accounting Standards Board, and International Accounting Standards and Interpretations of the Standing Interpretation Committee approved by the International Accounting Standards Committee that remain in effect. The condensed consolidated interim financial statements have been prepared under the historical cost convention.

The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's audited annual financial statements for the year ended 31 December 2006.

1.2 Significant accounting policies

The accounting policies adopted for preparation of the unaudited condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December, 2006, except for the adoption of the following new and revised IFRSs, which also include IASs and interpretations, that affect the Group and are adopted the first time for the current period's financial statements:

- IAS 1 Amendment — 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 revised IAS 1 will affect the disclosures of qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

The IFRS 7 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 and also incorporates major disclosure requirements of IAS 32.

The IFRIC — INT 7 addresses requirements of IAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional currency, when that economy was not hyperinflationary in the prior period, and requires an entity to restate its financial statements in accordance with IAS 29 .

The IFRIC — INT 8 addresses the application of IFRS 2 to particular transactions in which the entity cannot identify specifically some or all of the goods or services received.

1.2 Significant accounting policies (continued)

The IFRIC — INT 9 addresses the application of IAS 39 that an entity shall assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract, and prohibits subsequent reassessment throughout the life of the contract except for exceptional circumstances.

The IFRIC — INT 10 addresses the interaction between the requirements of IAS 34 and the recognition of impairment losses on goodwill in IAS 36 and certain financial assets in IAS 39 and that an entity shall not reverse an impairment loss recognised in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost.

The above accounting standards and interpretations had no material impact on the preparation of the unaudited condensed consolidated balance sheet and condensed consolidated income statement.

The Group has not early applied the following standards, amendments and interpretations that have been issued but are not yet effective.

- IFRS 8 — Operating segments
- IAS 23 (Revised) — Borrowing costs
- IFRIC — INT 11 — IFRS 2 — Group and treasury share transactions
- IFRIC — INT 12 — Service concession arrangements

IFRS 8 (effective for accounting period beginning on or after 1 January 2009) supersedes IAS 14 "Segment Reporting", under which segments were identified and reported on the basis of a risk and return analysis. Items were reported on the basis of the accounting policies used for external reporting. Under IFRS 8, segments are components of an entity regularly reviewed by an entity's chief operating decision-maker or an authorised qualified staff of the entity. Items are reported based on internal reporting.

IAS 23 (Revised), IFRIC — INT 11 and IFRIC INT 12 shall be applied for annual periods beginning on or after 1 January 2009, 1 March 2007 and 1 January 2008 respectively.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the application of the IFRS 8 may result in new or amended disclosures, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

2. SEGMENT INFORMATION

Segment information is required by IAS No. 14 "Segment Reporting" to be 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 operating activities are of a similar nature and is 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 captial expenditures are principally attributable to a single geographical region, which is the PRC. Therefore, no analysis in business or geographical segment is presented.

3. 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:

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Revenue:		
Sale of goods	**723,167**	638,447
Less: Sales tax and surcharge	**(4,462)**	(4,520)
	718,705	633,927
Other revenue and gains:		
Interest income	**16,287**	296
Profit from sale of raw materials	**1,432**	1,349
Gross rental income	**942**	1,189
Exchange gains, net	**—**	309
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	**—**	7,414
Value-added tax refund	**8,925**	9,464
Technical service income	**1,126**	427
Technological grants	**13,936**	—
Others	**934**	1,030
Total	**43,582**	21,478

4. Profit before tax

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

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Cost of inventories sold	**419,818**	326,466
Depreciation of items of property, plant and equipment	**20,194**	15,844
Exchange losses/ (gains), net	**18,721**	(309)
Amortisation of lease prepayments	**351**	133
Amortisation of intangible assets	**1,683**	841
Provision for obsolete inventories	**1,018**	5,552
Provision for impairment of receivables, net	**8,235**	7,482

5. Finance costs

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Interest paid on bank and other borrowings repayable within five years	**3,794**	7,320

6. Tax

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

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

(i) Pursuant to the approvals of relevant tax authorities, ZELRI, as a scientific research organisation enterprise, is exempt from CIT from 1 October 2000 to 30 September 2007.

Pursuant to the reorganisation of the Group, the Company was established to take over the relevant businesses from ZELRI, and in accordance with the relevant tax regulations and the approval of the local tax authorities, the Company is exempted from CIT for two years starting from 1 October 2005. Accordingly, no CIT has been provided for by the Company during the period.

The Company is an enterprise registered in the Hi-technology Development Zone of PRC and is subject to CIT at a rate of 15% from 1 October 2007.

(ii) The subsidiaries of the Company, Times Electronics and Times Guangchuang are enterprises established in Zhuzhou Hi-technology Development Zone and are subject to CIT at a rate of 15%. After being approved by the local tax authorities, Times Electronics are exempted from CIT from 1 April 2005 to 30 September 2007.

As approved by the local tax authorities, Times Guangchuang, as a software development enterprise, is entitled to CIT at a rate of 15% from 1 January 2007. Accordingly, CIT of Times Guangchuang for the six months ended 30 June 2007 was provided at a rate of 15%.

(iii) As approved by the local tax authorities, the subsidiary of the Company, Ningbo Company, as a scientific research reorganisation enterprise, is exempted from CIT for the two years ending 31 December 2007. Therefore, no provision for CIT of Ningbo Company was made during the period.

Major components of the corporate income tax expenses are as follows:–

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Current – CIT	**92**	244
Deferred	**(7,283)**	—
Total tax charge / (credit) for the period	**(7,191)**	244

7. Dividend

The Board did not recommend the payment of an interim dividend for the six months ended 30 June 2007.

In November 2006, after being approved at the general meeting of the Company, a special dividend amounting to RMB167,538,000 (equivalent to the amount of net profit earned from 26 September 2005 to 30 June 2006, as determined based on the lower of the profit after tax calculated in accordance with PRC GAAP and IFRSs, after deducting the amount of RMB14,278,000 transferred to the statutory reserve) was declared and paid to shareholders of the Company prior to the issue of H shares.

8. Earnings per share

The basic earnings per share was based on the net profit attributable to ordinary equity holders of the parent and the weighted average number of the ordinary shares issued during the period.

The calculation of the basic earnings per share is based on:

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Earnings:		
Profit attributable to ordinary equity holders of the parent	**161,127**	153,274

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	*(Audited)*
Shares:		
Weighted average number of ordinary shares in issue during the period used in the calculation of basic earnings per share	**1,084,255,637**	669,611,637

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

9. Property, plant and equipment

For the six months ended 30 June 2007, the acquisition cost of the Group' additions to property, plant and equipment amounted to RMB88,915,000. The additions to costs was mainly used in the construction of the new specialised manufacturing base and the acquisition of property by Beijing CSR Times Information Technology Co., Ltd. For the six months ended 30 June 2007, the Group disposed of fixed assets amounting to RMB61,000.

10. 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 conducted its businesses.

	As at 30 June 2007	As at 31 December 2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Trade receivables from:		
CSR and its subsidiaries (other than the Group)	**170,295**	89,208
Jointly-controlled entity	**69**	—
Third parties	**493,390**	453,983
	663,754	543,191
Less: Provision for impairment of receivables	**(43,273)**	(35,038)
	620,481	508,153

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

	As at 30 June 2007	As at 31 December 2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Within 1 year	**583,800**	477,330
Over 1 year but within 2 years	**46,386**	31,899
Over 2 years but within 3 years	**10,427**	17,728
Over 3 years	**23,141**	16,234
	663,754	543,191
Less: Provision for impairment of receivables	**(43,273)**	(35,038)
	620,481	508,153

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

11. Notes receivable

	As at 30 June 2007	As at 31 December 2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Within 3 months	**54,972**	70,779
Over 3 months but within 6 months	**165,141**	73,074
	220,113	143,853

12. Cash and cash equivalents and pledged deposits

	As at 30 June 2007	As at 31 December 2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Cash and bank balances	**947,701**	2,264,279
Time deposits	**800,000**	—
	1,747,701	2,264,279
Less: Pledged deposits against trade finance facilities	**(835)**	(2,969)
Cash and cash equivalents	**1,746,866**	2,261,310

13. Trade payables

	As at 30 June 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
Trade payables to:		
CSR and its subsidiaries (other than the Group)	**18,138**	57,562
Jointly-controlled entity	**118,622**	—
Third parties	**177,357**	172,750
	314,117	230,312

An aging analysis of the trade payables is as follows:

	As at 30 June 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
Within 3 months	**212,366**	170,674
Over 3 months but within 1 year	**96,167**	43,475
Over 1 year but within 2 years	**5,388**	15,142
Over 2 years but within 3 years	**172**	657
Over 3 years	**24**	364
	314,117	230,312

14. Notes payable

	As at 30 June 2007 (Unaudited) RMB'000	As at 31 December 2006 (Audited) RMB'000
Within 3 months	**8,350**	36,475
Over 3 months but within 6 months	**11,000**	62,197
	19,350	98,672

15. Related party transactions

Save as disclosed elsewhere in the condensed consolidated interim financial statements, the Group had the following material transactions with related parties during the period:

	For the six months ended 30 June	
	2007	2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Transactions with CSR and its subsidiaries:		
Sales of goods	**337,170**	151,530
Purchase of materials and components	**38,819**	64,685
Sales of electricity	**358**	—
Fees paid for usage of property, plant and machinery	**4,761**	4,575
Supporting service fee	**1,884**	2,895
Rental income from items of property, plant and machinery	**934**	1,189
Transactions with jointly-controlled entity:		
Sales of goods	**46**	—
Purchases of raw materials and components	**49,042**	—

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

16. Contingent liabilities

As at 30 June 2007, the Group has no material contingent liabilities (31 December 2006: Nil).

17. Commitments

At the balance sheet date, the Group had the following capital commitments:

	As at 30 June 2007	As at 31 December 2006
	(Unaudited)	*(Audited)*
	RMB'000	*RMB'000*
Contracted, but not provided for:		
Acquisition of items of property, plant and equipment	**75,588**	38,232

18. Approval of the Interim Financial Statements

The unaudited condensed consolidated interim financial statements were approved and authorised for issue by the Board of Directors on 28 August 2007.

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Group's unaudited condensed consolidated interim financial statements and the notes thereon in this interim report.

Revenue

	For the six months ended	
	30 June 2007	30 June 2006
	RMB million	*RMB million*
Train power converts, auxiliary power supply equipment and control system	**444.8**	265.6
Train operation safety equipment	**110.1**	179.9
Electrical control systems for large railway maintenance vehicles	**59.0**	83.5
Train-borne electrical systems	**613.9**	529.0
Power semiconductor devices	**56.4**	49.5
Sensors and related products	**27.3**	29.6
Others	**21.1**	25.8
Electric components	**104.8**	104.9
Total revenue	**718.7**	633.9

Revenue increased by RMB84.8 million from RMB633.9 million for the six months ended 30 June 2006 to RMB718.7 million for the six months ended 30 June 2007. Increase in revenue was mainly due to the increase in the sale of 200 km/h EMU products.

Cost of sales

Cost of sales increased by 28.6% from RMB326.5million for the six months ended 30 June 2006 to RMB419.8 million for the six months ended 30 June 2007. Increase in cost of sales was mainly due to the increase in the Group's revenue and 200km/h EMU products comprising of a certain proportion of imported components that resulted in a relatively higher cost.

Gross profit

Due to the change in sales of product mix, the Group's gross profit decreased by 2.8% from RMB307.5 million for the six months ended 30 June 2006 to RMB 298.9 million for the six months ended 30 June 2007.

Other revenue and gains

Other revenue and gains increased by 102.9% from RMB21.5 million for the six months ended 30 June 2006 to RMB43.6 million for the six months ended 30 June 2007. The increase in other revenue and gains was mainly due to the interest income arising from the IPO proceeds of the Company and the receipt of the subsidy from the State for technology projects.

Selling and distribution costs

Selling and distribution costs decreased by 14.3% from RMB56.5 million for the six months ended 30 June 2006 to RMB48.4 million for the six months ended 30 June 2007. Decrease in selling and distribution costs was mainly due to adopting comprehensive budgetary control resulting in an effective control of selling and distribution cost and changes in the Group's sales mix comprising higher contract value for 200 km/h projects with relative lower selling and distribution costs for the period.

Administrative expenses

Administrative expenses increased by 30.1% from RMB106.3 million for the six months ended 30 June 2006 to RMB138.2 million for the six months ended 30 June 2007. This was mainly due to the increase in research and development costs as a result of undertaking additional new research and development projects and one-off exchange loss as a result of the remittance of the IPO proceeds into PRC against an appreciating RMB.

Finance costs

Finance costs decreased by 48.2% from RMB7.3 million for the six months ended 30 June 2006 to RMB3.8 million for the six months ended 30 June 2007. This was mainly due to the decrease in the Group's borrowings, resulting in a decrease in interest expenses.

Income tax

The deferred tax of the Group was calculated based on deductible temporary differences such as accruals and its applicable tax rate during the period it realized.

Commitments

The capital commitments made by the Group increased by 97.9% from RMB 38.2 million as at 31 December 2006 to RMB 75.6 million as at 30 June 2007. Increase in capital commitment was due to the increase of investment made by the Group for the construction of a specialised manufacturing base in 2007.

Investments

In March 2007 the Company completed its acquisition of 50% interests in Zhuzhou Shiling Transportation Equipment, Ltd. ("Shiling") for a cash consideration of RMB 63,515,000, which equals to 50% of the net asset value of Shiling as at 31 December 2006. As a result of the said acquisition, Shiling becomes a jointly-controlled entity of the Company.

The Company has established a wholly-owned subsidiary, Beijing CSR Times Information Technology Co., Ltd., in Beijing, with an investment amount of RMB29,000,000. This company mainly specialises in the development of train operation safety equipment and railway network information projects.

Certain individual shareholders of Zhuzhou Times Zhuoyue Automotive Electronics Technology Co., Ltd. ("Times Zhuoyue") entrusted the Company to exercise the rights of operation and adminstration on their behalf. Since then, the Company obtained actual controlling right over the financial and operating policy of Times Zhuoyue. Times Zhuoyue was changed from an associate to a subsidiary.

Use of IPO Proceeds

The IPO proceeds received by the Company was utilized in accordance with the items disclosed in the Company's prospectus.

Gearing Ratio

The percentage of the Group's total borrowings to total assets as at 31 December 2006 was 9.6% and 0.8% as at 30 June 2007. The decrease was due to the settlement of a major portion of interest-bearing bank loans.

Contingent liabilities

The Group was not involved in any material litigations, and so far as the Group is aware, there are also no pending or potential material litigations involving the Group.

Market risks

The Group was subject to market risks, including interest risks, foreign exchange risks and risk of inflation during the daily course of its business.

OTHER INFORMATION

I. Corporate Governance

1. Compliance with the "Code of Corporate Governance Practices"

The Company is committed to maintaining a high level of corporate governance. During the reporting period, the Company has complied with all the relevant provisions contained in the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules of the Stock Exchange of Hong Kong, except for the adoption of a code of conduct for securities transactions by the Directors as described in the paragraph headed "Securities transactions by Directors".

2. 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 of Directors 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 being 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 the Directors confirmed that they have complied with the relevant standards in the Model Code during the reporting period.

3. Board of Directors

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

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 members of the Board (especially between the Chairman and the Chief Executive), including any financial, business, familial or other material relevant relationships.

4. Supervisory Committee

The Supervisory Committee consists of five Supervisors, among whom Mr. Zhang Liqiang is the chairman of the Supervisory Committee, two staff Supervisors, Mr. Jiang Yi and Mr. Pang Yiming, and two external independent Supervisors, Ms. Liu Chunru and Mr. He Hongqu.

5. Audit committee

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

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

The Company's audit committee and the Company management discussed the accounting principles adopted by the Group, and has reviewed the Group's unaudited interim financial reports for the six months ended 30 June 2007 prepared based on IFRS, and was satisfied that the unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

II. Internal controls

During the reporting period, the Company further upgraded its internal control mechanism, strengthened awareness on risk management, formalised process flows, and continued to engage an independent risk consultancy firm to advise the Company on internal audit and risk management.

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 files, flow-charts and risk control matrix. Defects discovered during the review were recorded, and an improvement plan was proposed.

III. Interests and short positions of Directors and supervisors in the shares of the Company

As at 30 June 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 SFO) required to be notified to the Company and the Stock Exchange of Hong Kong pursuant to Part XV of the SFO, or any interests or short positions in the shares required, pursuant to section 325 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 of Hong Kong in other ways pursuant to the Model Code.

IV. Structure of share capital

The Company's share capital structure as at 30 June 2007 was as follows:

Shareholder	**Type**	**Number of shares**	**% of issued share capital as at 30 June 2007**
ZELRI	Domestic shares	589,585,699	54.38%
CSR Qishuyan	Domestic shares	9,380,769	0.87%
New Leap	Domestic shares	9,380,769	0.87%
ZELC	Domestic shares	10,000,000	0.92%
Kunming China Railway	Domestic shares	9,800,000	0.90%
Shares in public circulation	H shares	456,108,400	42.06%
Total		1,084,255,637	100%

V. 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 (interests and short positions in the shares and relevant underlying shares of the Company disclosed herein were interests and short positions of the following persons other than Directors, Chief Executive or Supervisors of the Company) as at 30 June 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	589,595,699 (L)	Beneficial owner	93.86%	—	54.38%
CSR	618,347,237 (L)*	Interest in controlled entity	98.44%	—	57.03%
UBS AG	25,546,000 (L)	Security interest	—	6.06%	2.55%
	2,098,600 (L)	Interest in controlled entity	—		
Baring Asset Management Limited	28,170,000 (L)	Investment manager	—	6.18%	2.60%
JP Morgan Chase & Co.	7,680,000 (L)	Investment manager	—	6.01%	2.53%
	19,747,000 (P)	Approved lending agent	—		
Mirae Asset Global Investment Management Limited	23,519,000 (L)	Investment manager	—	5.16%	2.17%
Schroder Investment Management (Hong Kong) Limited	23,343,000 (L)	Investment manager	—	5.12%	2.15%
Northern Trust Fiduciary Services (Ireland) Limited	23,305,000 (L)	Trustee	—	5.11%	2.15%

*Note: CSR is a state-owned enterprise, directly owing 51% in ZELRI and directly interested as to 100% in the registered capital of CSR Qishuyan, directly and indirectly interested as to 100% in the registered capital of New Leap and as to 98.47% in the registered capital of ZELC. Accordingly, CSR is deemed under the SFO to be interested in the shares held by each of ZELRI, CSR Qishuyan, New Leap and ZELC.

VI. Purchase, redemption and sale of listed securities of the Company

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

VII. Distribution of dividends

1. Distribution plan and implementation of 2006 final dividends

Having been considered and passed at the 2006 shareholders' annual meeting, the Company has distributed a cash dividend of RMB0.034 per share as final dividend for 2006 to all shareholders based on the Company's total share capital of 1,084,255,637 shares as at 15 May 2007. Implementation of the dividend distribution plan has been completed before 17 July 2007. Due to exchange rate, the actual dividend distributed amounted to RMB36.78 million.

2. 2007 interim profit distribution plan

The Board did not recommend distribution of interim dividend for the six months ended 30 June 2007.

VIII. Connected transactions

During the reporting period, the Company has strictly complied with the relevant requirements in respect of connected transactions under Chapter 14A of the Listing Rules, and has established a set of mechanism to protect minority interests. The auditors of the Company has provided quarterly reports to the independent non-executive Directors on all transactions conducted between the Company and the Parent Group/CSR Group/Kunming China Railway. In addition, independent non-executive Directors have conducted quarterly reviews on the terms of supply and purchase contracts entered into between the Group and the Parent Group or CSR Group or Kunming China Railway, and the opinions regarding such transactions were disclosed to shareholders by way of announcements.

IX. Employees, remunerations and training

As at 30 June 2007, the Company had 2,715 employees, of which 939 were R&D personnel.

The remuneration package of the employees of the Company comprises monthly salaries, special incentives, performance incentives, statutory and company welfare. The Company participated in basic pension insurance, basic medical insurance, personal injury insurance, maternity insurance and unemployment insurance pursuant to the statutory requirements, and has set up housing common reserve fund and corporate annual fund for the employees. In enhancing the strategic remuneration plan, the Company has further increased investment in human resources, put more concerns on the planning of staff benefits matching with the career development of the staff, thereby making the remuneration system to be more fair and competitive.

The Company has put much emphasis on staff training, and has organised a number of special trainings during the reporting period. In the second half of this year, the Company will further strengthen its efforts in trainings and will complete the training programs of the annual training plan, so as to satisfy the demands of the Company for high caliber human resources in its progress of development.

BASIC CORPORATE INFORMATION

1	Authorised name in Chinese	株洲南車時代電氣股份有限公司
	Authorised name in English	Zhuzhou CSR Times Electric Co., Ltd.
2	Authorised 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 Facsimile Website	+ 86 733 849 8028 + 86 733 849 3447 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 1712-16, 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 advisers	Macquarie Securities Limited Polaris Capital (Asia) Limited

GLOSSARY

"Board" or "Board of Directors"	the board of directors of the Company
"Company"	株洲南車時代電氣股份有限公司 (Zhuzhou CSR Times Electric Co., Ltd.)
"CSR"	中國南方機車車輛工業集團公司 (China Southern Locomotive & Rolling Stock Industry (Group) Corporation), the controlling shareholder of the Parent Company
"CSR Group"	CSR and its subsidiaries, excluding the Parent Group
"CSR Qishuyan"	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 CSR and one of the Promoters 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., Kunming), held as to 100% by 中國鐵道建築總公司 (China Railway Construction Corporation), one of the Promoters of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong
"New Leap"	新力搏交通裝備投資發展有限公司 (New Leap Communication Equipment Invest Development Co., Ltd.), held as to 98% by CSR and as to 1% each by 中國南車集團資陽機車廠 (CSR Ziyang Locomotive Works) and 中國南車集團南京浦鎮車輛廠 (CSR Nanjing Puzhen Rolling Stock Works); 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"	中國南車集團株洲電力機車研究所 (CSR Zhuzhou Electric Locomotive Research Institute), a company held as to 51% by CSR and as to 49% by China Northern Locomotive & Rolling Stock Industry (Group) Corporation; one of the Promoters and also the controlling shareholder of the Company
"Parent Group"	the Parent Company and its subsidiaries (excluding the Group)
"Promoters"	Promoters of the Company, being ZELRI, ZELC, New Leap, CSR Qishuyan and Kunming China Railway
"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% Mitsubishi Electric (China) Ltd. after the completion of the acquisition of its interests
"The period" or "the reporting period"	the six months ended 30 June 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 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
"ZELC"	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 76.05% by CSR, as to 12.61% by the Parent Company, as to 10.08% by New Leap and as to 1.26% 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
"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 ZELC