

# Chairman's Report



Dear Shareholders,

I am pleased to present the Annual Report of the Group for the year ended 31 December 2006. On behalf of the Board of Directors, I would like to express our gratitude to all the shareholders for their care and support of our Company.

## Business Review

2006 was the first year in the Eleventh Five Year Plan period of the PRC, as well as a significant year in the history of the development of the Company. The Company saw remarkable achievements in research and development, production, sales, fund raising from a successful initial public offering and corporate governance.

The Group's turnover in 2006 amounted to RMB1,255,926,000 (2005: RMB997,976,000), an increase of 25.8% over the previous year. Profit attributable to equity holders of parent was RMB296,771,000 (2005: RMB211,733,000), an increase of 40.2% over the previous year. Earnings per share was RMB0.44 (2005: RMB0.33). The Company ranks 40th on the list of the PRC's top 100 software companies.

According to market reports, 2006 was the last year in which the Ministry of Railways purchased direct current locomotives in bulk. Meanwhile, the Company began to deliver its power electrical system products for 200 km/h high speed trains. During the year, the Company was also awarded a number of procurement contracts, including contract to provide products for 300 km/h high speed train electrical systems, contract to provide products for Line 2 of the Beijing Metro and contract to provide products for the Shenyang Metro Line. Annual sales of converters and control systems increased by approximately 37.4% compared with 2005. At the end of 2005, the Ministry of Railways stipulated that all train operation safety equipment of the LKJ93 model across the country should be replaced by the LKJ2000 model prior to the sixth round of nationwide train speed increase. As a result, the Company's sales of train operation safety equipment increased substantially and the total amount was approximately 35.7% higher than that of 2005. However, sales of large railway maintenance vehicles declined by approximately 16.3% compared with 2005.

In December 2006, the H shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong. The Company has complied with the Listing Rules and the relevant laws and regulations. The Company has enhanced shareholder value, improved the quality of its corporate governance while operating in a regulated manner. The Company is dedicated to establish itself as a transparent and high quality enterprise which is responsible for its shareholders, and devoted to create shareholder value.



## Company Outlook

The Company's long-term objective is to consolidate its leading position in the PRC railway train-borne electrical systems market, and to become an internationally renowned train-borne electrical system supplier and integrator. To achieve this, the Company will leverage its core technologies, speed up localisation of overseas technologies, continue its expansion in the domestic market, develop its overseas markets and further strengthen its core competitive advantages.

2007 will be a year of challenges and opportunities. Foreign competitors with advanced technologies and management experience have gained a foothold in the PRC market. The open market conditions have created intensified competition, placing pressures on the operation of the Company. We anticipate that the Ministry of Railways will concentrate on procuring mainly alternating current locomotives and EMUs after 2006. Market demand for direct current locomotives will decline in 2007. The market for train operation safety equipment products will also dwindle. However, the rapid development of China's economy as well as growth of the railway and urban rail industries will present the Company with great development opportunities. In 2007, the Company will start to deliver products for 300km/h high-speed train projects, and complete the delivery of products for 200km/h high-speed train projects. The market for large railway maintenance vehicles will also come into a new phase of expansion.

In 2007, the Company will adopt the following strategies to realise opportunities and to overcome challenges.

- Expedite construction of key projects as well as enhancing our professional manufacturing and testing capabilities. The Company will also fortify its capabilities in research and development, manufacturing and testing through integration of available resources, so as to enhance the core competitiveness of the Company.
- Continue to focus on technological innovation to reinforce our competitiveness within the market place.
- Continue to exploit potential of its existing markets, achieve breakthrough in the non-railway markets. The Company will strengthen its development in overseas markets and establish its European representative office.
- Continue to enhance the Company's corporate governance, and set up a management system that satisfies international capital market requirements.
- Explore opportunities for integration of upstream and downstream industries and resources.

The Company is fully confident of its future. The Company expects to continue its business growth in 2007 with the upgrading of its core technologies, enhancement of its ability to commercialise core technologies and expansion of its after-sales networks. The Company will persevere to create greater value, and share the fruits of its steady development with all its shareholders.

### Liao Bin

Chairman

23 April 2007