Notes to the Consolidated Financial Statements

1. GROUP REORGANISATION AND 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 as a result of a group reorganisation (the "Reorganisation") of CSR Zhuzhou Electric Locomotive Research Institute ("ZELRI") under the Company Law of the PRC.

Pursuant to the Reorganisation with an effective date of 30 September 2004, ZELRI, as the principal promoter of the Company, injected its assets, liabilities and businesses relating to the manufacture and sale of train-borne electrical systems and electrical components (the "Relevant Businesses") into the Company as capital contribution for subscribing approximately 94.06% of the equity interest in the Company. The Relevant Businesses at the effective date of the Reorganisation include the following:

(a) Various business divisions of ZELRI, which engaged in the manufacture and sale of train-borne electrical systems and electrical components together with their related assets and liabilities that included property, plant and equipment, cash, inventories, debtors, creditors and borrowings, except for (i) certain property, plant and equipment for basic research and development purposes, administration purposes or not related to the operations of the Relevant Businesses; (ii) certain prepayments and non-trade payable balances which were not and will not be related to the operations of the Relevant Businesses; (iii) inventories which will not be used in the operations of the Group; and (iv) certain cash balances;

(b) ZELRI's 100% equity interest in a subsidiary, Ningbo CSR Times Sensor Technology Company Ltd. ("Ningbo Company"), which is engaged in the manufacture and sale of sensors and vacuum sanitary units; and

(c) ZELRI's 90% equity interest in a subsidiary, Zhuzhou Times Electronics Technology Co., Ltd. ("Times Electronics"), which is engaged in the manufacture and sale of the electrical control systems of large railway maintenance vehicles.

The net asset value of the Relevant Businesses injected into the Company was RMB629,811,637, as appraised by a PRC valuer.

Upon its establishment, the Company issued approximately 629,811,637 ordinary shares of RMB1.00 each to ZELRI, credited as fully paid, as consideration for the Relevant Businesses injected by ZELRI into the Company. CSR Zhuzhou Electric Locomotive Company, Ltd., CSR Qishuyan Locomotive & Rolling Stock Works ("CSR Qishuyan"), New Leap Communication Equipment Invest Development Co., Ltd. ("New Leap") and China Railway Large Maintenance Machinery Co., Kunming ("Kunming China Railway"), the other promoters of the Company (collectively the "Other Promoters"), injected cash into the Company in an aggregate amount of RMB39,800,000 as consideration for the Company's paid-up capital of an aggregate of 39,800,000 shares of RMB1.00 each. As a result, 94.06% and 5.94% of the share capital of the Company were owned by ZELRI and the Other Promoters, respectively.

On 20 December 2006, the Company issued 360,560,000 new H shares to the public at a price of Hong Kong Dollars ("HK$") 5.30 per share (equivalent to approximately RMB5.330 per share), and were listed on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, 36,056,000 H shares converted from certain domestic shares held by ZELRI, CSR Qishuyan and New Leap were transferred to the PRC National Council for the Social Security Fund.

1. GROUP REORGANISATION AND CORPORATE INFORMATION (Continued)

On 28 December 2006, as a result of the full exercise of the over-allotment option detailed in the Company's prospectus dated 8 December 2006 (the "Over-allotment Option"), an additional 54,084,000 new H shares were issued to the public at a price of HK$5.30 per share (equivalent to approximately RMB5.327 per share) and were listed on the Main Board of The Stock Exchange of Hong Kong Limited. In addition, 5,408,000 H shares converted from certain domestic shares held by ZELRI, CSR Qishuyan and New Leap were transferred to the PRC National Council for the Social Security Fund.

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 sales and manufacture of train-borne electrical systems and electrical components.

In the opinion of the directors, the holding company of the Group is ZELRI and the ultimate holding company of the Group is China Southern Locomotive & Rolling Stock Industry (Group) Corporation ("CSR"), 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.

As ZELRI controlled the Relevant Businesses before the Reorganisation and continues to have control over the Group after the Reorganisation, the Reorganisation has been accounted for as a reorganisation of entities under common control in a manner similar to a pooling of interests. As a result, the financial statements have been prepared on the basis as if the Relevant Businesses had been injected into the Company at the beginning of the comparative year ended 31 December 2005. Accordingly, the assets and liabilities comprising the Relevant Businesses injected into the Company have been stated at historical amounts.

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 2006. The result 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.

The acquisition of subsidiaries has been accounted for using the purchase method of accounting. This method 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.

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

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

• IAS 1 Amendment	Presentation of Financial Statements: Capital Disclosures
• IAS 23 (Revised)	Borrowings Costs
• IFRS 7	Financial Instruments: Disclosures
• IFRS 8	Operating Segments
• 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
• IFRIC - Int 11	IFRS 2 - Group and Treasury Share Transactions
• IFRIC - Int 12	Service Concession Agreements

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about 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.

IAS 23 (Revised) shall be applied for annual periods beginning on or after 1 January 2009. The revised standard requires all borrowing costs to be capitalised if they are directly attributable to the acquisition, construction or production of a qualifying assets. The choice of immediately recognise such cost as an expense is eliminated.

IFRS 7 shall be applied for annual periods beginning on or after 1 January 2007. The 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.

2.2 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

IFRS 8 shall be applied for annual periods beginning on or after 1 January 2009 and will replace the existing IAS 14 "*Segment Reporting*". IFRS 8 requires an entity to adopt the "management approach" to report on the financial performance of its operating segments. Generally, the information to be reported would be that used internally for the purpose of evaluating segment performance and deciding resources allocation to operating segments. Such information may be different from what is used for preparing the income statement and balance sheet. IFRS 8 therefore requires explanations of the basis on how the segment information is prepared and reconciled to the income statement and balance sheet.

IFRIC - Int 7, IFRIC - Int 8, IFRIC - Int 9, IFRIC - Int 10, IFRIC - Int 11 and IFRIC - Int 12 shall be applied for annual periods beginning on or after 1 March 2006, 1 May 2006, 1 June 2006, 1 November 2006, 1 March 2007 and 1 January 2008, respectively.

The Group has commenced its assessment of the impact of these standards and interpretation, but is not yet in a position to state whether these standards and interpretation would have a material impact on its result of operations and financial position.

2.3 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.

Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. The Group's interest in an 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 results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's interests in associates are treated as non-current assets and are stated at cost less any impairment losses.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Goodwill

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Group's interests in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

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. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with IAS14 *Segment Reporting*.

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.

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.

Any excess of the Group's interests in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the acquisition of subsidiaries, after reassessment, is recognized immediately in the consolidated income statement.

For the acquisitions of additional interests in subsidiaries, the excess of the Group's additional interests in the carrying value of the acquiree's identifiable net assets over the cost of acquisition of such additional interests in subsidiaries is recognised immediately in the consolidated income statement.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 such exchange differences arose during the years ended 31 December 2005 and 2006.

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 arose 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, which consist of buildings, plant, machinery and equipment, computer equipment and others, and construction in progress, 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 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.

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 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Construction in progress

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 under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms ranging from 40 to 50 years.

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

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 are reviewed at least at each balance sheet date.

Technical know-how

Purchased royalty, patents and licences

Expenditure on acquired royalty, patents and licences is capitalised as intangible assets and amortised using the straight-line method over their useful lives of 10 years. Royalty, patents and licences are not revalued as there is no active market for these assets.

Computer software

Acquired computer softwares is 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 5 to 10 years.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets

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 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 groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to 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. Impairment losses are recognised in the consolidated income statements 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 indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statements unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

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.

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 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 recognized in the consolidated income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. 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 is included in the consolidated income statements. 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.

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. Such 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.

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 labour 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

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.

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

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 recognized 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 and interests in associates, 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.

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 and interests in associates, 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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

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.

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.

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.

2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 judgement 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.

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 required by IAS 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 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 in 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	**2006** **RMB'000**	2005 RMB'000
Revenue:			
Sale of goods		**1,266,909**	1,005,780
Less: Sales tax and surcharge		**(10,983)**	(7,804)
		1,255,926	997,976
Other revenue and gains:			
Interest income		**25,048**	1,238
Profit from sale of raw materials		**2,246**	3,345
Gross rental income		**2,359**	—
Exchange gains, net		**—**	4,212
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)	**15,499**	6,969
Technical service income		**2,780**	1,320
Others		**8,589**	1,446
Total		**64,473**	18,530

5. REVENUE, OTHER REVENUE AND GAINS(Continued)

(i) Acquisition of additional interests in subsidiaries

In June 2006, the Company acquired a further 10% equity interest in 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 a 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 such acquisition of 10% equity interest from Times Electronics' minority shareholder amounted to RMB20,569,000 and the excess of such carrying value over the cost of acquisition attributable to the Group (includes 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 such 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's additional interest in the carrying value of the net assets of Times Guangchuang arising from the acquisition of 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' 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 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 2005 and 2006.

6. PROFIT BEFORE TAX

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

	Notes	**2006** **RMB'000**	2005 RMB'000
Cost of inventories sold		**640,377**	542,314
Staff costs (including directors' and supervisors' emoluments)	(i)	**139,462**	117,888
Auditors' remuneration		**3,600**	159
Depreciation of items of property, plant and equipment		**33,764**	25,335
Amortisation of lease prepayments		**556**	564
Amortisation of intangible assets		**2,192**	2,345
Minimum lease payments under operating leases in respect of:			
Land and buildings		**457**	127
Plant and equipment		**9,115**	9,000
Provision for obsolete inventories		**12,297**	11,883
Exchange losses/(gains), net		**1,442**	(4,212)
Research and development costs		**95,982**	52,388
Less: staff cost included above		**(39,259)**	(25,904)
depreciation and amortisation included above		**(3,133)**	(4,675)
Research and development costs net of staff cost, depreciation and amortisation		**53,590**	21,809
Losses/(gains) on disposal of items of property, plant and equipment, net		**(53)**	199
Provision for impairment of trade and other receivables, net		**17,520**	4,318
Write-off of an available-for-sale financial asset		**306**	—
Loss on disposal of an associate		**277**	—
Provision for warranties		**33,273**	32,403
Interest income		**(25,048)**	(1,238)
Gross rental income		**(2,359)**	—

6. PROFIT BEFORE TAX (Continued)

(i) Staff cost

	2006	2005
	RMB'000	RMB'000
Wages, salaries and bonuses	**104,728**	93,872
Contribution to government-operated pension schemes	**8,862**	6,734
Contribution to a pension annuity plan	**3,713**	—
Welfare and other expenses	**22,159**	17,282
Total	**139,462**	117,888

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

	2006	2005
	RMB'000	RMB'000
Interest paid on bank and other borrowings repayable within one year	**14,352**	13,819

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:

	2006	2005
	RMB'000	RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**1,403**	682
Bonuses	**1,690**	1,617
Pension scheme contributions	**62**	30
Total	**3,155**	2,329

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

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 2005 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	—	122	501	6	629
Tian Lei	—	116	475	6	597
Ding Rongjun	—	91	339	6	436
Non-executive director:					
Ma Yunkun	—	14	—	—	14
Independent non-executive directors:					
Chan Kam Wing, Clement	—	35	—	—	35
Pao Ping Wing	—	33	—	—	33
Tan Xiao'ao	—	—	—	—	—
	—	411	1,315	18	1,744
Supervisors:					
Jiang Yi	—	104	153	6	263
Pang Yiming	—	122	149	6	277
Zhang Liqiang	—	11	—	—	11
He Hongqu	—	17	—	—	17
Liu Chunru	—	17	—	—	17
	—	271	302	12	585
Total	—	682	1,617	30	2,329

In November 2006, Liao Bin and Tian Lei became non-executive directors of the Company. Further, in November 2006, Lu Penghu was appointed as an executive director of the Company, and Gao Yucai and Zhou Heliang were appointed as non-executive directors of the Company. The remuneration of Lu Penghu, Gao Yucai and Zhou Heliang have not been disclosed in the above tables relating to the year ended 31 December 2005.

8. DIRECTORS' AND SUPERVISORS' EMOLUMENTS (Continued)

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

	The Group	
	2006	2005
Directors and supervisors	**3**	3
Non-director and non-supervisor employees	**2**	2
	5	5

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

	The Group	
	2006	2005
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**312**	198
Bonuses	**372**	506
Pension scheme contributions	**23**	13
	707	717

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

	2006	2005
Nil to HK$1,000,000	**2**	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. INCOME TAX EXPENSE

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 Accounting Standards for Business Enterprises and the Accounting System for Business Enterprises ("PRC GAAP") 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 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. Therefore, no CIT was provided for the profits arising from the Relevant Businesses operated by ZELRI which is included in those financial statements for the period prior to the establishment of the Company on 26 September 2005.

Pursuant to the Reorganisation, the Company was established to take over the Relevant Businesses from ZELRI, and in accordance with relevant tax regulations and an approval from the local tax authorities, the Company is exempt from CIT for two years starting from 1 October 2005. Accordingly, no CIT has been provided for by the Company during the year.

(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 31 December 2006. Times Electronics is subject to a tax rate of 15% for the three month period ended 31 March 2005, and no provision for income tax of Times Electronics was made after 1 April 2005.

As approved by the local tax authorities, Times Guangchuang, as a software development enterprise, is entitled to a 50% reduction of CIT for the three years starting from 1 January 2004. Accordingly, CIT of Times Guangchuang for the years ended 31 December 2005 and 2006 were provided at a reduced rate of 7.5%.

(iii) As approved by the relevant tax authorities, 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 year ending 31 December 2007. Therefore, no provision for CIT of Ningbo Company was made during the year.

9. INCOME TAX EXPENSE (Continued)

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

	2006 RMB'000	2005 RMB'000
Current taxation - PRC corporate income tax	**313**	639

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:

	2006		2005	
	RMB'000	**%**	RMB'000	%
Profit before tax	**302,581**		218,556	
Standard tax rate applied to profit before tax	**99,852**	**33.0**	72,123	33.0
Reconciling items:				
Expenses not deductible for income tax purposes	**3,984**	**1.3**	1,640	0.7
Income not subject to income tax	**(7,769)**	**(2.6)**	(1,110)	(0.5)
Effect of tax incentive	**(1,235)**	**(0.4)**	(78)	(0.0)
Tax exemptions	**(94,519)**	**(31.2)**	(71,936)	(32.9)
Total tax charge for the year	**313**	**0.1**	639	0.3

10. DIVIDENDS

	2006 RMB'000	2005 RMB'000
Pre-incorporation profit distribution (i)	**—**	119,852
Special dividend (ii)	**167,538**	—
Proposed final – RMB0.034 per ordinary share (iii)	**36,865**	—
	204,403	119,852

10. DIVIDENDS (Continued)

(i) In accordance with the "Provisional Regulation Relating to Corporate Reorganisation of Enterprises and Related Management of state-owned Capital and Financial Treatment" notice issued by the Ministry of Finance (財政部關於印發《企業公司制改建有關國有資本管理與財務處理的暫行規定》的通知), the Company is required to make a distribution to ZELRI which represents an amount equal to the net profit attributable to shareholders, as determined based on PRC GAAP, generated during the period from 30 September 2004 (effective date of the Reorganisation) to 26 September 2005 (the date of incorporation of the Company) by the Relevant Businesses of ZELRI. Accordingly, pre-incorporation profits of RMB51,476,000 and RMB119,852,000 were distributable to ZELRI during the year ended 31 December 2004 and the year ended 31 December 2005, respectively. Further details are set out in note 31.

(ii) 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 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.

(iii) The proposed final dividend for the year ended 31 December 2006 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 2006 includes a profit of RMB268,673,000 (2005: RMB126,379,000), which has been dealt with in the financial statements of the Company (note 30).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on:

	2006	2005
	RMB'000	RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent	**296,771**	211,733
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**682,058,366**	640,388,623

The Company's weighted average number of domestic shares in issue used in the basic earning per share calculation for the year ended 31 December 2005 is determined on the assumption that the 629,811,637 domestic shares of RMB1.00 each issued as a result of the Reorganisation had been in issue during the year and was adjusted to add the 39,800,000 domestic shares of RMB1.00 each issued to the Other Promoters upon the establishment of the Company on 26 September 2005. Further details of the Reorganisation are set out in note 1.

No diluted earnings per share have been disclosed as no diluting events existed during the years ended 31 December 2005 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 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 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 2005					
At 1 January 2005:					
Cost	124,536	137,238	23,745	43,131	328,650
Accumulated depreciation and impairment	(38,979)	(46,907)	(10,946)	—	(96,832)
Net carrying amount	85,557	90,331	12,799	43,131	231,818
At 1 January 2005, net of accumulated depreciation and impairment	85,557	90,331	12,799	43,131	231,818
Additions	11,690	12,304	15,080	61,322	100,396
Disposals	(344)	(919)	(2,109)	(504)	(3,876)
Depreciation provided during the year	(7,000)	(14,095)	(4,240)	—	(25,335)
Transfers	64,411	3,335	222	(67,968)	—
At 31 December 2005, net of accumulated depreciation and impairment	154,314	90,956	21,752	35,981	303,003
At 31 December 2005:					
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

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 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

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 2005					
Transferred from ZELRI in connection with the Reorganisation	51,956	76,270	6,482	41,613	176,321
Additions	10,907	8,915	15,080	41,153	76,055
Disposals	—	(780)	(685)	—	(1,465)
Depreciation provided during the year	(4,899)	(11,391)	(3,587)	—	(19,877)
Transfers	64,411	3,335	222	(67,968)	—
At 31 December 2005, net of accumulated depreciation and impairment	122,375	76,349	17,512	14,798	231,034
At 31 December 2005:					
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

14. PREPAID LAND LEASE PAYMENTS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at beginning of year	**21,840**	22,098	**8,970**	—
Additions	**11,508**	306	**—**	306
Transferred from ZELRI in connection with the Reorganisation	**—**	—	**—**	8,841
Amortisation provided during the year	**(556)**	(564)	**(182)**	(177)
Carrying amount at end of year	**32,792**	21,840	**8,788**	8,970

15. INTANGIBLE ASSETS

The Group

	Patents and technical know-how RMB'000	Computer software RMB'000	Total RMB'000
At 1 January 2005:			
Cost	16,100	2,903	19,003
Accumulated amortisation	(2,904)	(350)	(3,254)
Net carrying amount	13,196	2,553	15,749
Cost at 1 January 2005, net of accumulated amortisation	13,196	2,553	15,749
Additions	—	724	724
Amortisation provided during the year	(2,013)	(332)	(2,345)
At 31 December 2005	11,183	2,945	14,128
At 31 December 2005 and 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:			
Cost	16,100	6,621	22,721
Accumulated amortisation	(6,327)	(1,464)	(7,791)
Net carrying amount	9,773	5,157	14,930

15. INTANGIBLE ASSETS (Continued)

The Company

	Patents and technical know-how RMB'000	Computer software RMB'000	Total RMB'000
Transferred from ZELRI in connection with the Reorganisation	13,196	2,553	15,749
Additions	—	220	220
Amortisation provided during the year	(2,013)	(318)	(2,331)
At 31 December 2005	11,183	2,455	13,638
At 31 December 2005 and 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:			
Cost	16,100	5,561	21,661
Accumulated amortisation	(6,327)	(1,192)	(7,519)
Net carrying amount	9,773	4,369	14,142

16. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2006	2005
	RMB'000	RMB'000
Unlisted investments, at cost	**127,067**	112,298

Particulars of the subsidiaries as at 31 December 2006 are as follows:

Name	Notes	Place of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity interests 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	(i)	PRC	RMB80,000,000	100	—	Manufacture and sale of electrical control systems for large railway maintenance vehicles
Times Guangchuang	(ii)	PRC	RMB3,000,000	—	85	Manufacture and sale of power supply equipment for air conditioners of locomotives
Times Electric, USA LLC		United States of America	US$200,000	100	—	Sale of electric, electronic and mechanical products

(i) As mentioned in note 1, pursuant to the Reorganisation, ZELRI injected its 90% equity interest in Times Electronics into the Company. In June 2006, the Company acquired a further 10% equity interest in Times Electronics. Thereafter, Times Electronics became a wholly-owned subsidiary of the Company (note 5(i)).

(ii) As mentioned in note 5(i), in December 2006, Times Electronics acquired a further15% equity interest in Times Guangchuang, a then 70%-owned subsidiary of Times Electronics. Thereafter, its equity interest in Times Guangchuang increased from 70% to 85%.

17. INTEREST IN AN ASSOCIATE

	The Group	
	2006	2005
	RMB'000	RMB'000
Share of net assets	**1,920**	980

Particulars of the associate as at 31 December 2006 are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration	Percentage of ownership interest attributable to the Group	Principal activities
Zhuzhou Times Zhuoyue Automotive Electronics Co., Ltd.	RMB5,000,000	PRC	40	Manufacture and sale of automotive electronics products and computer control software

18. AVAILABLE –FOR-SALE FINANCIAL ASSETS

	The Group	
	2006	2005
	RMB'000	RMB'000
At cost:		
Unlisted equity investments	**1,200**	1,606

19. INVENTORIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**201,099**	140,983	**125,269**	68,320
Work in progress	**51,194**	43,144	**36,292**	28,812
Finished goods	**155,939**	79,966	**144,267**	74,285
Consumables and packing materials	**750**	160	**750**	160
	408,982	264,253	**306,578**	171,577
Less: Provision for obsolete inventories	**(51,825)**	(40,375)	**(39,374)**	(31,765)
	357,157	223,878	**267,204**	139,812

20. 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	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables from:				
CSR and its subsidiaries (other than the Group)	**89,208**	133,555	**67,450**	118,705
Subsidiaries	**—**	—	**23,874**	2,417
Third parties	**453,983**	394,160	**368,608**	279,982
	543,191	527,715	**459,932**	401,104
Less: Provision for impairment of receivables	**(35,038)**	(18,296)	**(26,702)**	(14,112)
	508,153	509,419	**433,230**	386,992

20. TRADE RECEIVABLES (Continued)

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**477,330**	480,199	**412,909**	367,367
Over 1 year but within 2 years	**31,899**	30,485	**19,423**	21,086
Over 2 years but within 3 years	**17,728**	12,111	**15,345**	8,947
Over 3 years	**16,234**	4,920	**12,255**	3,704
	543,191	527,715	**459,932**	401,104
Less: Provision for impairment of receivables	**(35,038)**	(18,296)	**(26,702)**	(14,112)
	508,153	509,419	**433,230**	386,992

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

21. NOTES RECEIVABLE

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**70,779**	20,425	**24,918**	18,001
Over 3 months but within 6 months	**73,074**	38,612	**61,954**	16,192
	143,853	59,037	**86,872**	34,193

22. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments, deposits and other receivables:				
CSR and its subsidiaries (other than the Group)	**4,531**	149,139	**4,517**	148,573
Subsidiaries	**—**	—	**96,004**	11,724
Third parties	**92,452**	33,381	**83,557**	25,272
	96,983	182,520	**184,078**	185,569
Less: Provision for impairment of receivables	**(895)**	(140)	**(195)**	—
	96,088	182,380	**183,883**	185,569

The amounts due from CSR 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.

23. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**2,264,279**	165,126	**2,233,470**	122,486
Less: Pledged deposits against trade finance facilities	**(2,969)**	—	**(704)**	—
Cash and cash equivalents	**2,261,310**	165,126	**2,232,766**	122,486

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods of between one day and three months, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. The carrying amounts of cash and cash equivalents and pledged or restricted deposits approximate to their fair values.

24. TRADE PAYABLES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables to:				
CSR and its subsidiaries				
(other than the Group)	**57,562**	23,481	**56,170**	8,293
Subsidiaries	**—**	—	**56,210**	30,198
Third parties	**172,750**	167,414	**140,938**	126,090
	230,312	190,895	**253,318**	164,581

The amounts due to CSR 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 aging analysis of the trade payables is as follows:

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**170,674**	153,039	**195,646**	135,653
Over 3 months but within 1 year	**43,475**	33,875	**42,348**	26,064
Over 1 year but within 2 years	**15,142**	3,199	**14,534**	2,728
Over 2 years but within 3 years	**657**	203	**692**	136
Over 3 years	**364**	579	**98**	—
	230,312	190,895	**253,318**	164,581

25. NOTES PAYABLE

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**36,475**	14,580	**30,145**	14,580
Over 3 months but within 6 months	**62,197**	2,700	**62,197**	2,700
	98,672	17,280	**92,342**	17,280

26. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receipts in advance	**62,980**	56,500	**60,449**	36,016
Other payables	**45,591**	67,839	**31,428**	42,811
Accruals	**56,430**	6,079	**44,815**	4,891
Amounts due to CSR and its subsidiaries (other than the Group)	**44,697**	30,831	**43,920**	23,351
Subsidiaries	**—**	—	**4,558**	—
	209,698	161,249	**185,170**	107,069

The amounts due to CSR 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.

27. PROVISION FOR WARRANTIES

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**31,898**	23,377	**22,115**	14,694
Provision made during the year	**33,273**	32,403	**30,588**	24,488
Amounts utilised	**(28,273)**	(23,882)	**(26,608)**	(17,067)
At end of year	**36,898**	31,898	**26,095**	22,115

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.

28. INTEREST-BEARING BANK AND OTHER BORROWINGS

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Bank loans:				
Secured	**—**	10,000	**—**	10,000
Unsecured	**364,537**	239,541	**364,537**	229,541
	364,537	249,541	**364,537**	239,541
Other borrowings -				
Unsecured	**—**	2,980	**—**	2,980
	364,537	252,521	**364,537**	242,521
Represented by:				
Repayable within one year or on demand:				
Bank loans	**364,537**	249,541	**364,537**	239,541
Other borrowings	**—**	2,980	**—**	2,980
	364,537	252,521	**364,537**	242,521

As at 31 December 2005, the Group's bank loans of approximately RMB229,541,000 and RMB10,000,000 were guaranteed by a subsidiary of CSR and ZELRI, respectively. The Group's other bank loan of RMB10,000,000 as at 31 December 2005 was secured by the Company's notes receivable.

The Group's and the Company's bank loans of approximately RMB364,537,000 as at 31 December 2006 were due within one year and were under open credit terms.

The Group's and the Company's bank loans as at 31 December 2006 bore interest at effective rates ranging from 5.022% to 7.500% per annum during the year ended 31 December 2006.

29. SHARE CAPITAL

	2006	2005
	RMB'000	RMB'000
Registered, issued and fully paid		
- domestic shares of RMB1.00 each	**628,148**	669,612
- H shares of RMB1.00 each	**456,108**	—
	1,084,256	669,612

29. SHARE CAPITAL (Continued)

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
At 1 January 2005		—	—	—
Capitalisation as a result of the Reorganisation	(i)	629,812	—	629,812
Capital contribution from the other promoters (note 1)		39,800	—	39,800
At 31 December 2005 and 1 January 2006		669,612	—	669,612
Issuance of new H shares upon listing	(ii)	—	360,560	360,560
Domestic shares converted into H shares upon listing	(ii)	(36,056)	36,056	—
Issuance of new H shares upon full exercise of the Over-allotment Option	(iii)	—	54,084	54,084
Domestic shares converted into H shares upon full exercise of the Over-allotment Option	(iii)	(5,408)	5,408	—
At 31 December 2006		628,148	456,108	1,084,256

Notes

(i) Upon the incorporation of the Company on 26 September 2005, the historical net asset value of the Relevant Businesses was converted into the Company's share capital of RMB629,811,637, comprising 629,811,637 ordinary shares of RMB1.00 each, with all the then existing reserves eliminated and the difference between the amount of share capital issued and the historical net asset value of the Relevant Businesses transferred to the Company as at 30 September 2004 was presented in the reserves of both the Group and the Company. Separate classes of reserves, including retained profits of the Group prior to incorporation of the Company were not separately disclosed as all of these reserves had been capitalised and established in the capital reserves of the Group and the Company pursuant to the Reorganisation.

(ii) On 20 December 2006, the Company issued 360,560,000 new 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 and New Leap were converted into 36,056,000 H shares and transferred to the PRC National Council for the Social Security Fund.

(iii) 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. 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.

30. RESERVES

The Group

The amount of the Group's reserves and the movements therein for the current and prior years 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	Owners' equity/ retained profits RMB'000	Total RMB'000
At 1 January 2005		—	—	—	463,771	463,771
Profit for the year		—	—	—	126,379	126,379
Total income and expense for the year		—	—	—	126,379	126,379
Capitalisation as a result of the Reorganisation	29(i)	(186,195)	—	—	(443,617)	(629,812)
Appropriation to statutory reserves	(i)	—	13,134	—	(13,134)	—
Distribution of pre-incorporation profit	10	—	—	—	(119,852)	(119,852)
At 31 December 2005 and 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	29(ii)&(iii)	1,795,324	—	—	—	1,795,324
Share issuing expenses	(ii)	(122,781)	—	—	—	(122,781)
Appropriation to statutory reserves	(i)	—	25,383	—	(25,383)	—
Special dividends	10(ii)	—	—	—	(167,538)	(167,538)
Proposed final dividend	10(iii)	—	—	36,865	(36,865)	—
At 31 December 2006		1,486,348*	38,517*	36,865	52,434*	1,614,164

* These reserve accounts comprise the reserves of RMB1,577,299,000 (2005: RMB(159,514,000)) in the Company's balance sheet.

30. RESERVES (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.

Following the establishment of the Company, the Company appropriated RMB6,567,000 to each of the statutory common reserve and the statutory public welfare fund for the year ended 31 December 2005, which represented 10% of the net profit after tax of the Company for the period from establishment date (26 September 2005) to 31 December 2005, as determined under PRC GAAP.

During the year, the directors of the Company approved the appropriation of 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 2006, 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.

31. MAJOR NON-CASH TRANSACTION

As mentioned in note 10(i), during the year ended 31 December 2006, the Group settled the pre-incorporation profit distribution of RMB171,328,000 to ZELRI through a set-off against an outstanding receivable from ZELRI.

32. CONTINGENT LIABILITIES

As at 31 December 2006, neither the Group nor the Company had any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS

(i) As lessor

The Group leases its items of property, plant and machinery under operating lease arrangements, with leases negotiated for terms of two years.

As at 31 December 2006, 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 and the Company	
	2006	2005
	RMB'000	RMB'000
Within one year	**1,867**	—
In the second year	**1,867**	—
	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 four years.

As at 31 December 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Within one year	**9,578**	127
In the second to fourth years, inclusive	**9,390**	127
	18,968	254

34. COMMITMENTS

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

	The Group		The Company	
	2006	2005	**2006**	2005
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Acquisition of items of property, plant and equipment	**38,232**	35,487	**29,607**	20,219

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.

In April 2006, the Company entered into an agreement to acquire a 50% equity interest in Zhuzhou Shiling Transportation Equipment, Ltd. ("Shiling") from ZELRI at a consideration of 50% of the sum of a base price and an adjustment. The base price is the higher amount of (i) Shiling's net assets as at 31 December 2005, as valued by a valuation agency designated by both parties and (ii) Shiling's net assets on its accounts as at 31 December 2005. The adjustment is equal to the difference between Shiling's net assets on its accounts as at 31 December 2005 and on 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 ZELRI and the Company. The acquisition was completed in March 2007 at a consideration of RMB63,515,000 in cash, which equals to 50% of the net asset value of Shiling as at 31 December 2006. Thereafter, Shiling became a jointly-controlled entity of the Company.

35. 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	
	2006	2005
	RMB'000	RMB'000
Transactions with CSR and its subsidiaries:		
Sales of goods	**296,258**	255,651
Purchases of materials and components	**162,404**	91,300
Sales of property, plant and machinery	**673**	—
Purchases of property, plant and machinery	**2,142**	—
Sales of electricity	**762**	—
Purchases of electricity	**—**	4,771
Fees paid for usage of property, plant and machinery	**9,152**	9,127
Supporting service fee	**6,781**	6,478
Rental income from items of property, plant and machinery	**2,221**	—

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) Compensation of key management personnel of the Company:

	The Group	
	2006	2005
	RMB'000	RMB'000
Short term employee benefits	**3,093**	2,299
Post-employment benefits	**62**	30
Total compensation paid to key management personnel	**3,155**	2,329

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

36. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial instrument

The financial assets of the Group mainly include cash and cash equivalents, trade and notes receivables, other receivables and other financial assets. The financial liabilities of the Group mainly include other payables and accruals, trade and notes payables, bank loans and other borrowings. The Group did not enter into any derivative activities during the years ended 31 December 2005 and 2006.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instruments. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

Credit risk

Most of the Group's cash and cash equivalents are held in major financial institutions located in the PRC, which management believe are of high credit quality.

The Group has no significant credit risk with major customers since the Group maintains long-term and stable business relationships with these major customers. The Group performs ongoing credit evaluations of its customers' financial conditions and generally does not require collateral on trade receivables. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations.

The Group's notes receivable are mainly guaranteed by banks and the risk of default in payment is minimal.

The Group's trade and notes receivable, and other receivables represent the Group's maximum exposure to credit risk attributable to its financial assets.

Other than the aforesaid, the Group has no significant concentration of credit risk with any single counterparty.

Liquidity risk

The Group policy is to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities from banks to meet its commitment over the foreseeable future, in accordance with its strategic plan.

Interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of the changes in market interest rates.

The Group's interest rate risk arises from borrowings. All the borrowings of the Group are negotiated at fixed rates and borrowings issued at fixed rates expose the Group to fair value interest rate risk. The directors of the Company and its subsidiaries believe that the exposure to fair value interest rate risk of financial assets and liabilities was minimum since their deviation from their respective fair values is not significant.

36. 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, among others, United States dollar, European currency units and the Hong Kong dollar. Fluctuation of exchange rates of RMB against foreign currencies can affect the Group's results of operations.

37. EVENTS AFTER THE BALANCE SHEET DATE

(i) During the 5th Session of the 10th National People's Congress, which was concluded on 16 March 2007, the PRC Corporate Income Tax Law ("the New Corporate Income Tax Law") was approved and will become effective on 1 January 2008. The New Corporate Income Tax Law introduces a wide range of changes which include, but are not limited to, the unification of the income tax rate for domestic-invested and foreign-invested enterprises at 25%. Since the detailed implementation and administrative rules and regulations have not yet been announced, the financial impact of the New Corporate Income Tax Law to the Group cannot be reasonably estimated at this stage.

(ii) In January 2007, the Company, as the single investor, established a subsidiary, (Beijing CSR Times Information Technology Co., Ltd.) and has made a capital contribution of RMB29,000,000 for 100% equity interest therein.

(iii) In March 2007, the acquisition of a 50% equity interest in Shiling by the Company had been completed, further details are set out in note 34 to the financial statements.

38. THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 April 2007.