

SUMMARY

This summary provides an overview of the information contained in this prospectus. This is a summary and it does not contain all the information that may be important to you. You should read the prospectus in its entirety before you decide to invest in the Offer Shares.

There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed "Risk factors" in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares.

OVERVIEW

The Group is the leading train-borne electrical system provider and integrator for the PRC Railway industry. The Group possesses comprehensive capabilities in research and development, design, manufacture, sales and customer service. The Group is also engaged in developing, manufacturing and selling train power converters, auxiliary power supply equipment and control systems for trains for urban rail systems, which is a focus of the Group's future business expansion. In addition, the Group designs, manufactures and sells electrical components for the PRC Railway industry, the urban rail industry and non-railway applications. The Group's electrical component products include power semiconductor devices, sensors and related products.

For the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, the Group's total turnover was RMB658.8 million, RMB787.8 million, RMB998.0 million and RMB633.9 million and the Group's profit attributable to equity holders of the Company was RMB98.5 million, RMB162.7 million, RMB211.7 million and RMB153.3 million, respectively.

The Group's products are divided into two categories, namely, train-borne electrical systems and electrical components. The table below sets forth the main products in each category.

Products

Train-borne Electrical Systems

- Train power converters, auxiliary power supply equipment and control systems
- Train operation safety equipment
- Electrical control systems for large railway maintenance vehicles

Electrical Components

- Power semiconductor devices
- Sensors and related products
- Others (primarily includes PCBs and low inductance busbars for train-borne electrical systems and other applications)

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As measured by the number of systems or components sold by the Group to PRC rail vehicle manufacturers divided by the total number of such systems or components procured by PRC rail vehicle manufacturers pursuant to the MOR's annual purchase plan in 2005, which was provided by the MOR's Research Institute of Science, Technology and Information, the Group's train power converters and electronic control systems represented approximately 40% and 69% market shares in the domestic new rail vehicle market (including locomotives and large railway maintenance vehicles, but not including rail vehicles for urban rail systems) in 2005, respectively. The Group's train operation safety equipment, electrical control system for large railway maintenance vehicles and power semiconductor devices represented approximately 63%, 100% and 51% market shares in the domestic new rail vehicle market, respectively, in 2005.

The Group's train-borne electrical systems are used in locomotives, passenger cars and trains for urban rail systems as the key equipment for power supply, controlling train operation and ensuring the safe operation of trains. The Group's train-borne electrical systems are also used in large railway maintenance vehicles. The Company is in the process of acquiring a 50% and 17% equity interest in Shiling and Siemens Zhuzhou, respectively. Shiling is principally engaged in the development and manufacture of electrical systems used for trains for urban rail systems. To the best of the Group's knowledge, Siemens Zhuzhou may focus on the development and manufacture of AC propulsion locomotives and related key equipment in the future. The Group's electrical components are primarily used as components in train-borne electrical systems used by both the PRC Railway industry and the urban rail industry. They are also used in non-railway applications such as power transmission, metal processing, mining and chemical engineering.

The following table sets forth the amount and percentage of the Group's turnover derived from each of the Group's two principal categories of products for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2003		2004		2005		2005		2006	
	<i>(unaudited)</i>									
	<i>Turnover</i>	<i>% of</i>	<i>Turnover</i>	<i>% of</i>	<i>Turnover</i>	<i>% of</i>	<i>Turnover</i>	<i>% of</i>	<i>Turnover</i>	<i>% of</i>
	<i>(RMB</i>	<i>Total</i>	<i>(RMB</i>	<i>Total</i>	<i>(RMB</i>	<i>Total</i>	<i>(RMB</i>	<i>Total</i>	<i>(RMB</i>	<i>Total</i>
	<i>millions)</i>	<i>Turnover</i>	<i>millions)</i>	<i>Turnover</i>	<i>millions)</i>	<i>Turnover</i>	<i>millions)</i>	<i>Turnover</i>	<i>millions)</i>	<i>Turnover</i>
Train-borne electrical systems	495.6	75.2%	607.2	77.1%	781.0	78.3%	438.6	81.0%	529.0	83.5%
Electrical components	163.2	24.8%	180.6	22.9%	217.0	21.7%	102.8	19.0%	104.9	16.5%
Total	<u>658.8</u>	<u>100.0%</u>	<u>787.8</u>	<u>100.0%</u>	<u>998.0</u>	<u>100.0%</u>	<u>541.4</u>	<u>100.0%</u>	<u>633.9</u>	<u>100.0%</u>

The Group's key customers are the MOR and its local railway administrations, rail vehicle manufacturers and urban rail operators in the PRC. The Group supplies its train-borne electrical systems to rail vehicle manufacturers and urban rail operators to be installed on new rail vehicles for the PRC Railways and the urban rail systems and to the MOR's local railway administrations and urban rail operators for repair and replacement applications. For the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, the Group's sales to its top five customers accounted for approximately 49.9%, 41.9%, 35.7% and 45.9%, respectively, of

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the Group's total turnover. During the same periods, approximately 7.8%, 7.2%, 4.8% and 3.4% of the Group's total annual turnover was derived from the Group's direct export sales. The Group exports its train-borne electrical systems primarily to Hong Kong and certain other countries in Asia, and exports its electrical components primarily to the US and Europe.

COMPETITIVE STRENGTHS

The Directors believe the Group's historical success and potential future growth are primarily attributable to the following competitive strengths.

- Leading position in train-borne electrical system technology in the PRC
- Close relationships with key customers and brand recognition
- Strong research and development capabilities
- Strong capabilities in commercialising proprietary core technologies
- An integrated supplier with a broad offering of customised products and an extensive service network
- Experienced and dedicated management team

BUSINESS STRATEGIES

The Group's objectives are to reinforce its leading position in the PRC train-borne electrical system market in terms of both technology and market share and become an internationally known train-borne electrical system provider and integrator. The Group intends to achieve such objectives by pursuing the following strategies:

- To continue to focus on technology development
- To increase product and service variety
- To capitalise on the Group's technologies to further expand into the urban rail market and non-railway markets
- To increase production capacity
- To continue to expand sales and service network
- To continue to upgrade management systems to achieve operational excellence and management efficiency

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RISK FACTORS

There are certain risks and considerations relating to an investment in the Company's Shares. They can be categorised into (i) risks relating to the Group; (ii) risks relating to the industry; (iii) risks relating to the PRC; and (iv) risks relating to the Global Offering. These risk factors and considerations are further described in the section headed "Risk Factors" of this prospectus and are summarised below.

Risks relating to the Group

- The Group's reliance on a small group of key customers magnifies the effect of the loss of or reduction in business relating to any one of them
- A significant amount of the Group's purchases and sales are with the CSR Group and the Parent Group
- The Group's trade and notes receivable turnover days are relatively long
- The Group has a limited operating history as an integrated entity
- Changes in product mix may affect the Group's results of operations
- The Group may not be able to successfully implement its plan to expand into new markets
- The transfer of the Parent Company's joint venture interests and the Group's arrangement with joint venture parties may not be successful
- The interests of CSR may not align with those of other shareholders
- CNR may compete with the Group
- The Group spends substantial amounts of capital and resources to engage in the research and development of advanced technologies, which may not be successful
- The Group's success and sustained growth is to a significant extent dependent on the Group's continuing ability to hire and retain qualified research and development personnel
- The Group faces increasing competition from foreign competitors
- The Group may become involved in intellectual property disputes
- The Group may not be able to adequately protect its intellectual property, which could reduce its competitiveness

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- The Group may be subject to intellectual property right disputes if the relevant agreements in relation to the 200 km/h EMU and ATP projects cannot be assigned from the Parent Company to the Company
- The Group may not be able to procure components from suppliers on acceptable terms or in a timely manner
- The Group's manufacturer's warranties may potentially expose the Group to significant claims
- The Group's production and results of operations may be impaired by its manufacturing capacity constraints
- The Group's certain internal control policies and procedures are newly implemented and neither the Group's compliance with them nor their effectiveness has been fully tested
- Loss or substantial reduction in tax benefits available to the Group would reduce the Group's net profits
- Electricity shortages may adversely affect the Group's businesses
- The Group's insurance coverage may not be sufficient to cover the risks related to the Group's operations
- The Group may not achieve the same level of name recognition as its Parent Company
- Changes in environmental laws and work safety regulations may have a material adverse effect on the Group

Risks relating to the industry

- The Group's financial performance is subject to overall PRC economic conditions and the MOR's policies
- Changes in the MOR's pricing policy may have an adverse effect on the Group
- The MOR's market accession policy on imports may have a material adverse effect on the Group
- There is competition from other modes of transportation

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Risks relating to the PRC

- Changes in political, economic and social conditions, laws, regulations and policies in the PRC may have an adverse effect on the Group
- The PRC legal system is not fully developed and investors may not have the same level of legal protection as in other jurisdictions
- Changes in foreign exchange regulations may adversely affect the Group's ability to remit dividends and the Group's results of operations and financial condition
- Fluctuation of the Renminbi could materially affect the results of operations and the value of, and dividends payable on, H Shares in foreign currency
- The exemption from withholding tax on dividends and income currently available may not continue in the future
- It may be difficult to effect service of process upon the Company or its Directors, Supervisors or executive officers who live in the PRC or to enforce against them in the PRC any judgements obtained from non-PRC courts
- The outbreak of epidemics may have a material adverse effect on the Group's business, results of operations and financial condition

Risks relating to the Global Offering

- There has been no prior public market for the Group's H Shares
- The liquidity and market prices of the Group's H Shares following this Global Offering may be volatile
- Disposal of H Shares to be retained by the NSSF Council following the listing may result in an increase of the number of H Shares available on the market and may affect the price of the H Shares
- Potential conversion of Domestic Shares into H Shares may result in an increase of the number of H Shares available in the market and may affect the price of the H Shares
- The industry statistics contained in this prospectus are derived from various publicly available sources that may not be reliable
- Dividends distributed in the past may not be indicative of the Company's dividend policy in the future
- The Company strongly cautions you not to place any reliance on any information contained in press articles or other media regarding the Company and the Global Offering

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SUMMARY FINANCIAL INFORMATION

	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i> <i>(unaudited)</i>	<i>RMB'000</i>
Turnover	658,762	787,756	997,976	541,363	633,927
Cost of sales	<u>(388,372)</u>	<u>(464,696)</u>	<u>(542,314)</u>	<u>(286,831)</u>	<u>(326,466)</u>
Gross profit	270,390	323,060	455,662	254,532	307,461
Other revenue and gains	14,421	86,142	18,530	9,224	21,478
Selling and distribution costs	(41,777)	(58,864)	(87,295)	(48,868)	(56,504)
Administrative expenses	(155,616)	(161,661)	(154,795)	(71,935)	(106,268)
Other operating revenue/(expenses), net	<u>(809)</u>	<u>(1,086)</u>	<u>273</u>	<u>—</u>	<u>(306)</u>
Profit from operating activities	86,609	187,591	232,375	142,953	165,861
Finance costs	(8,075)	(10,800)	(13,819)	(6,336)	(7,320)
Share of profit of associates	<u>17,878</u>	<u>8,256</u>	<u>—</u>	<u>—</u>	<u>—</u>
Profit from operating activities before tax and minority interests	96,412	185,047	218,556	136,617	158,541
Income tax expense	<u>—</u>	<u>(2,626)</u>	<u>(639)</u>	<u>(607)</u>	<u>(244)</u>
Net profit for the year/period before minority interests	<u>96,412</u>	<u>182,421</u>	<u>217,917</u>	<u>136,010</u>	<u>158,297</u>
Attributable to:					
Equity holders of the Company	98,530	162,680	211,733	132,358	153,274
Minority interests	<u>(2,118)</u>	<u>19,741</u>	<u>6,184</u>	<u>3,652</u>	<u>5,023</u>
	<u>96,412</u>	<u>182,421</u>	<u>217,917</u>	<u>136,010</u>	<u>158,297</u>
Earnings per share (basic)	<u>RMB0.16</u>	<u>RMB0.26</u>	<u>RMB0.33</u>	<u>RMB0.21</u>	<u>RMB0.23</u>
Dividends	<u>—</u>	<u>51,476</u>	<u>119,852</u>	<u>109,343</u>	<u>167,538</u>

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PROFIT FORECAST FOR 2006

Forecast consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2006	not less than RMB268 million (about HK\$264 million)
Unaudited pro forma forecast earnings per Share — fully diluted	not less than RMB0.26 (about HK\$0.26)

The forecast consolidated profit attributable to the equity holders of the Company for 2006 is prepared based on the Group's audited accounts for the six months ended 30 June 2006, the results shown in the unaudited management accounts of the Group for the three months ended 30 September 2006 and a forecast of the results of the Group for the remaining three months ending 31 December 2006. The bases on which the Group's profit forecast is prepared are set out in Appendix III to this prospectus.

The unaudited pro forma fully diluted forecast earnings per Share is prepared based on the Group's forecast consolidated profit attributable to the equity holders of the Company for the year ending 31 December 2006 assuming that the Company's H Shares had been listed on the Stock Exchange since 1 January 2006 and a total of 1,030,171,637 Shares had been in issue since 1 January 2006. The calculation assumes there is no exercise of Over-allotment Option.

DIVIDEND POLICY

Holders of H Shares will be entitled to receive dividends and other distributions declared by the Board of Directors on a pro rata basis, except that they will not be entitled to the special dividend payable to the Promoters referred to below. The Board of Directors shall declare dividends in Renminbi and payments shall be made in Hong Kong dollars. Please refer to the section headed "Financial Information — Dividend Policy". The Board of Directors shall, in its discretion, decide whether or not to declare dividends. Factors to be considered by the Board of Directors include the Company's general business conditions, financial results, capital requirements, the interests of shareholders and other related factors as determined by the Board of Directors.

Under PRC law, dividends may be paid only out of distributable profits. Pursuant to the Company's Articles of Association, distributable profits are the Group's after-tax profits, as determined in accordance with PRC GAAP or IFRS, whichever is lower, less allocations to the statutory and discretionary funds. Before 1 January 2006, statutory funds included statutory reserve and statutory welfare funds. Effect as at 1 January 2006, the Company Law was amended to abolish the requirement of allocation to statutory welfare funds. The Company also amended its Articles of Association in 2006 to abolish such requirement accordingly. The final distribution of any dividend in each financial year shall be subject to shareholders' approval.

Subject to the fulfilment of the requirements under PRC law described above, the Directors currently expect that the Company will distribute dividends equivalent to approximately 40% of its profit attributable to equity holders of the Company for the period from 1 July 2006 to 31 December 2008. Such policy will be reviewed by the Board thereafter.

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SPECIAL DIVIDEND

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 MOF, the Company is required to make a distribution to the Parent Company in an amount equal to the net profit attributable to shareholders, as determined based on the PRC GAAP, generated during the period from 30 September 2004 (effective date of Reorganisation) to 26 September 2005 (the date of incorporation of the Company) by the Relevant Businesses (as defined in “History and Development — Reorganisation”). Accordingly, pre-incorporation profit of RMB51,476,000 and RMB119,852,000 was distributed to the Parent Company during the year ended 31 December 2004 and 2005, respectively.

On 29 November 2006, the Company declared a special dividend of RMB167,538,000 to its shareholders. The special dividend has been fully settled in cash financed by new short-term bank loans.

OFFER STATISTICS

	Based on an Offer Price per H Share of HK\$4.18	Based on an Offer Price per H Share of HK\$5.30
Market capitalisation of the H Shares ¹	HK\$1,658 million	HK\$2,102 million
Prospective price/earnings multiple		
(a) Pro forma fully diluted basis ²	16.1 times	20.4 times
(b) Weighted average ³	11.0 times	13.9 times
Unaudited pro forma adjusted net tangible assets per Share ⁴	HK\$2.10	HK\$2.47

Notes:

- (1) The calculation of market capitalisation is based on 396,616,000 H Shares expected to be issued and outstanding after the Global Offering assuming that the Over-allotment Option is not exercised.
- (2) The calculation of the prospective price/earnings multiple on a pro forma fully diluted basis is based on the forecast earnings per Share for the year ending 31 December 2006 on a pro forma fully diluted basis based on a total of 1,030,171,637 Shares in issue during the entire year, and at the respective Offer Price of HK\$4.18 and HK\$5.30 per H Share assuming that the Over-allotment Option is not exercised.
- (3) The calculation of the prospective price/earnings multiple on a weighted average basis is based on the above forecast earnings per Share for the year ending 31 December 2006 on a weighted average basis at the respective Offer Price of HK\$4.18 and HK\$5.30 per H Share assuming that the Over-allotment Option is not exercised.
- (4) The adjusted net tangible asset value per Share is based on 1,030,171,637 Shares expected to be in issue following the Global Offering at the respective Offer Price of HK\$4.18 and HK\$5.30 per H Share without taking into account any H Shares which may be issued upon exercise of the Over-allotment Option and the special dividend of RMB167,538,000 approved in the shareholder’s meeting of the Company on 29 November 2006.

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USE OF PROCEEDS

The Group intends to use the net proceeds from the Global Offering to finance its future plans, strengthen its capital base and improve its financial position. The net proceeds of the Global Offering, after deducting underwriting fees and related expenses payable by the Company in relation to the Global Offering, are estimated to be approximately HK\$1,401 million if the Offer Price as finally determined is HK\$4.18 per Share and HK\$1,792 million if the Offer Price as finally determined is HK\$5.30 per Share, assuming the Over-allotment Option is not exercised. Assuming the Over-allotment Option is not exercised and based on an Offer Price of HK\$4.74 per Share, being the midpoint of the indicative Offer Price range of HK\$4.18 to HK\$5.30 per Share, the net proceeds of the Global Offering are estimated to be approximately HK\$1,596 million, which the Company presently intends to use as follows:

- (i) Approximately HK\$665 million (representing approximately 41.6% of the net proceeds) will be used in relation to train power converter, auxiliary power supply equipment and control systems as follows:
 - approximately HK\$557 million will be used on commercialising AC propulsion technologies, of which approximately HK\$102 million will be used to develop and commercialise AC train power converter technologies, approximately HK\$260 million will be used on upgrading and expanding the Group's production base, and approximately HK\$195 million will be used to build a new testing system;
 - approximately HK\$40 million will be used to invest in establishing a subsidiary in Shanghai focusing on developing and commercialising train-borne electrical systems for rail vehicles for urban rail systems; and
 - approximately HK\$68 million will be used on research, development and commercialisation of electrical products for railway passenger cars.
- (ii) Approximately HK\$174 million (representing approximately 10.9% of the net proceeds) will be used in relation to train safety operation equipment as follows:
 - approximately HK\$50 million will be used to develop and commercialise ATP technologies; and
 - approximately HK\$124 million will be used to invest in establishing a subsidiary in Beijing focusing on developing and commercialising new train operation safety equipment and railway information network projects.

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- (iii) Approximately HK\$35 million (representing approximately 2.2% of the net proceeds) will be used on a technology import and commercialisation project for developing a new generation of large railway maintenance vehicles.
- (iv) Approximately HK\$361 million (representing approximately 22.6% of the net proceeds) will be used in relation to large size power semiconductor devices as follows:
- approximately HK\$32 million will be used on research and development of large size power semiconductor devices;
 - approximately HK\$94 million will be used on construction of new factory buildings; and
 - approximately HK\$235 million will be used to procure equipment.
- (v) Approximately HK\$118 million (representing approximately 7.4% of the net proceeds) will be used in relation to sensors and related products as follows:
- approximately HK\$88 million will be used to expand the production capacity of sensor products; and
 - approximately HK\$30 million will be used to build a production line for vacuum sanitary units.
- (vi) Approximately HK\$175 million (representing approximately 11.0% of the net proceeds) will be used in relation to other areas:
- approximately HK\$40 million will be used to invest in establishing an export and overseas sales network;
 - approximately HK\$63 million will be used to establish the Group's information systems including implementing the ERP system;
 - approximately HK\$60 million will be used to acquire a 50% equity interest in Shiling; and
 - approximately HK\$12 million will be used to acquire a 17% equity interest in Siemens Zhuzhou.
- (vii) Approximately HK\$68 million (representing approximately 4.3% of the net proceeds) will be used as working capital to strengthen the Company's capital structure.

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In the event that the Over-allotment Option is exercised in full, the Directors intend to increase its investment in (i) development and commercialisation of AC train power converter technologies, (ii) research and development of large size power semiconductor devices and (iii) procurement of equipment for the production of power semiconductor devices in the proportions of 39%, 10% and 51% of the additional net proceeds of HK\$249 million, respectively.

In the event that the Offer Price is fixed at HK\$4.18 per Share, being the lowest price of the indicative Offer Price range, the net proceeds will be reduced by approximately HK\$196 million. In such circumstances, the Directors presently intend to fund the difference with cash generated from operations or bank loans.

In the event that the Offer Price is fixed at HK\$5.30 per Share, being the highest price of the indicative Offer Price range, the net proceeds will increase by approximately HK\$196 million. In such circumstances, the Directors presently intend to increase its investment in (i) development and commercialisation of AC train power converter technologies, (ii) research and development of large size power semiconductor devices and (iii) procurement of equipment for the production of power semiconductor devices in the proportions of 39%, 10% and 51% of the additional net proceeds of HK\$196 million, respectively.

Any remaining balance of the net proceeds of the Global Offering and to the extent that the net proceeds of the Global Offering are not immediately used for the above purposes and to the extent permitted by the PRC law, the Company presently intends to deposit them into interest-bearing bank accounts or invest in short-term investment-grade debt securities.

In the event there is to be a material modification to the use of proceeds as described above, the Company will issue an announcement of the change.