Potential investors should consider carefully all the information set out in this prospectus and, in particular, should consider the following risks and special considerations associated with the Company's business before making any investment decision in relation to the Company.

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

The Group's key customers are the rail vehicle manufacturers, the MOR and its local railway administrations, the MOR and its local railway administrations being the end-users of most of the Group's products and services. For the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, sales to the Group's top five customers, most of which were rail vehicle manufacturers and local railway administrations, accounted for 49.9%, 41.9%, 35.7% and 45.9% of the Group's total turnover, respectively, and sales to the Group's top customer accounted for 22.2%, 18.2%, 13.4% and 13.8% of the Group's total turnover, respectively. The Group anticipates that its reliance on its key customers will continue due to the nature of the industry. Consequently, the occurrence of any one of the following events may cause material reductions in the Group's turnover and have a material adverse effect on its results of operations:

- changes in the MOR's policies that would reduce one or more of the key customers' demand for the Group's products and services;
- reduction, delay or cancellation of orders from one or more of the Group's key customers;
- loss of one or more of the key customers; and
- failure of any of the key customers to make timely payment for the Group's products and services.

The Parent Company was established in 1959 as a designated research division under the MOR undertaking research and development of locomotives and related products. Such a background created a close bond between the MOR and the Group and substantial MOR confidence in the Group's products and services, and thereby contributed to the Group's business and results of operations. If the Group's relationship with the MOR weakens or the MOR and its local railway administrations' confidence in the Group's products and services declines, it may have a material adverse effect on the Group's business, results of operations and financial condition.

Further, some of the rail vehicle manufacturers, the Group's key customers of train power converters, auxiliary power supply equipment and control systems, currently have or are in the process of developing the capability to produce those systems the Group is currently supplying. If they are granted permission by the MOR and decide to develop and produce those systems in the future and therefore reduce or terminate their need of the Group's products and services, the Group's turnover and financial results may be materially and adversely affected.

A significant amount of the Group's purchases and sales are with the CSR Group and the Parent Group

The Group sells train-borne electrical systems to CSR Group and electrical components to both CSR Group and the Parent Group. CSR is the Company's ultimate holding company and also holds a majority interest in a number of rail vehicle manufacturers in the PRC. For the three years ended 31 December 2003, 2004 and 2005 and the six-month period ended 30 June 2006, the Group's sales to the CSR Group (excluding the Parent Group) amounted to approximately RMB186.3 million, RMB234.3 million, RMB207.7 million and RMB127.3 million, respectively, accounting for 28.3%, 29.7%, 20.8% and 20.1% of the Group's total turnover and the Group's sales to the Parent Group amounted to approximately RMB19.0 million, RMB9.9 million, RMB48.0 million and RMB24.2 million, respectively, accounting for 2.9%, 1.3%, 4.8% and 3.8% of the Group's total turnover. The Group anticipates that it will continue to derive a significant amount of its turnover from the CSR Group and the Parent Group. As a result, the reduction, delay or cancellation of orders from the CSR Group and the Parent Group may cause material reductions in the Group's turnover and have a material adverse effect on its results of operations. See also "— 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".

The Group also purchases certain parts and components from the CSR Group and the Parent Group primarily for the production of train-borne electrical systems. For the three years ended 31 December 2003, 2004 and 2005 and the six-month period ended 30 June 2006, the Group's purchases from the CSR Group (excluding the Parent Group) amounted to approximately RMB12.3 million, RMB25.9 million, RMB28.4 million and RMB12.3 million, respectively, accounting for 2.7%, 5.6%, 5.0% and 3.3% of the Group's total purchases and the Group's purchases from the Parent Group amounted to approximately RMB22.5 million, RMB38.7 million, RMB62.9 million and RMB52.4 million, respectively, accounting for 4.9%, 8.3%, 11.2% and 14.1% of the Group's total purchases. Should the CSR Group and the Parent Group fail to supply components with acceptable quality, quantity and price and in a timely manner, particularly if the Group is unable to obtain those components from alternative suppliers on a timely basis or on commercially acceptable terms, the Group's production and delivery schedule of relevant products may be disrupted. See also "— Risks relating to the Group — The Group may not be able to procure components from suppliers on acceptable terms or in a timely manner".

The Group has entered into contracts with CSR and the Parent Company for mutual supplies of products effective from the date of the listing of the Company's H Shares on the Stock Exchange and expiring on 31 December 2008, based on prices determined by reference to the following in the order of priority: (i) the price prescribed by the state (including any price prescribed by any relevant local government), if applicable; (ii) the price recommended under the state pricing guidelines, when no state-prescribed price is available; (iii) the market price, when neither the state-prescribed price nor the state recommended price is available; or (iv) the price which is no less favourable to the Group than is available to or from independent third parties, when none of the above is available or applicable. Failure by CSR or the Parent Company to fulfil its obligations under such contractual arrangements may have an adverse effect on the Group's business, financial condition and results of operations. See "Relationship with the Parent Company and Connected Transactions".

The Group's trade and notes receivable turnover days are relatively long

The MOR and its local railway administrations generally pay the Group at the end of a season or a year when they receive allocated funds from the PRC Government, no matter when the Group's products or services are delivered. The foregoing practice has caused the Group's average trade and notes receivable turnover days to be relatively long. For the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, the Group's trade and notes receivable turnover days were 178 days, 211 days, 202 days and 181 days, respectively. The long trade and notes receivable turnover days has an impact on the Group's cash flow and ability to make timely payments of obligations, and any increase in the trade and notes receivable turnover days is likely to worsen the impact. Further, any such increase would increase the Group's vulnerability to general adverse economic and industry conditions. In addition, there can be no assurance that no material defaults will occur in the future.

The Group has a limited operating history as an integrated entity

Prior to the Reorganisation, the Group operated its certain businesses through its subsidiaries. In connection with the Reorganisation, the Group dissolved most of its subsidiaries and started to operate its businesses directly under centralised management. The Group has a limited operating history as an integrated entity and may not operate as efficiently as intended in the short term, or at all. In addition, the results of certain subsidiaries of the Company have been consolidated with the Group's results only since they became the Parent Company's subsidiaries and were then transferred to the Company as part of the Reorganisation in September 2004. See "Financial Information — Reorganisation and Basis of Presentation" for details. The Group's year-on-year growth rate in turnover during the Track Record Period would be lower than indicated in its financial statements if those companies had become the Group's subsidiaries earlier and the results of those subsidiaries were consolidated with the Group's results for the entire Track Record Period.

Changes in product mix may affect the Group's results of operations

The profit margin of the Group may vary depending on, among other things, its product mix. For example, on average, the price of train-borne electrical systems manufactured by the Group accounts for higher percentage of the price of an electric locomotive than the price of a diesel locomotive. The gross profit margin on the sale of train-borne electrical systems for electric locomotives is also typically higher than that of train-borne electrical systems for diesel locomotives. Electric locomotives have been increasingly replacing diesel locomotives in service in recent years. If the percentage of the Group's turnover from train-borne electrical systems for electric locomotives to overall turnover substantially decreases, it may lower the Group's overall profit margin.

The Group may not be able to successfully implement its plan to expand into new markets

The Group's proprietary technologies can be applied in the urban rail market and for non-railway uses. In addition to train-borne electrical system applications, the Group's electrical components are also used in non-railway applications such as power transmission, metal processing, mining and chemical engineering. The Group plans to expand further into the urban rail market and non-railway markets. However, the Group's expansion efforts may not be successful and the Group's results of operations may be materially and adversely affected as a result.

The transfer of the Parent Company's joint venture interests and the Group's arrangements with joint venture parties may not be successful

The Parent Group undertakes some of its key business operations in cooperation with foreign companies through joint venture arrangements. The Company entered into two equity transfer agreements with the Parent Company in 2006 whereby the Parent Company agreed to transfer its 50% and 17% equity interests in two joint ventures, namely Shiling and Siemens Zhuzhou, to the Company, subject to joint venture partners' consents and necessary PRC governmental approvals. For further details of the joint ventures, see the section headed "History and Development — Businesses to be Acquired by the Company". There is no assurance that the Parent Company will be able to obtain all required consent and approvals in a timely manner, or at all.

The Group expects to gain better access to high-speed EMU, heavy-haul freight locomotive and urban rail markets in China through these joint venture arrangements. Even if the Parent Company obtains all necessary consents and approvals in a timely manner for the Group to legally own such equity interests in the two joint ventures, there is no assurance that such arrangements will operate smoothly or the Group will be able to achieve its intended objectives through these arrangements.

The interests of CSR may not align with those of other shareholders

The Parent Company will be the Company's single largest shareholder immediately following the Global Offering and will hold 57.74% of the Company's issued share capital (assuming the Over-allotment Option is not exercised). CSR, through its 51% equity interest in the Parent Company, will be the Company's ultimate controlling shareholder. Accordingly, subject to the Company's Articles of Association and applicable laws and regulations, the Parent Company and CSR will be able to influence the Company's major policy decisions that require the approval of the Company's shareholders (including overall strategic and investment decisions and dividend plans), and through their representatives on the Board, influence the management of the Company. In addition, they will be able to control the election of the Company's Directors and, in turn, to indirectly control the selection of the Company's senior management.

CSR's interests may not always align with those of the Company's other shareholders. CSR will have the ability to exert significant influence over the Company's actions and may have the ability to effect corporate transactions irrespective of the desires of the Company's other shareholders. If CSR's interests conflict with the interests of the Company's other shareholders, or if CSR chooses to cause the Company to pursue strategic objectives that conflict with the interests of the Company's other shareholders, those other shareholders may be disadvantaged as a result. In addition, there is no assurance that CSR and its members will not compete with the Group in the future in areas in which competition is not prohibited pursuant to its non-competition undertaking. See "Relationship with the Parent Company — Competition" for details of the non-competition undertaking.

CNR may compete with the Group

CNR holds a 49% equity interest in the Parent Company and has not directly or indirectly exerted any influence over the Company's management and operations in the past. As CNR has not executed a non-competition undertaking in favour of the Company, there is no assurance that CNR and/or its members will not participate, engage or own any interests in any business that may compete with the Group. As at the Latest Practicable Date, members of the CNR Group were involved in the production of train power converters and control systems which are in competition with products of the Group. In addition, there is no assurance that CNR will not attempt to exert, directly or indirectly, any influence over the Company's management or operations in the future and in a way that conflicts with the interests of the other shareholders of the Company. For further details of CNR's relationship with the Group, please see "Relationship with the Parent Company — CSR and CNR".

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 competition in the Group's industries is increasingly intense and the Group's future operating results will depend to a significant extent on the Group's ability to continue to compete with other suppliers in terms of technology, manufacturing capabilities and performance of its products. As a result, the Group is required to commit substantial funds and resources to engaging research personnel and purchasing advanced design, production and test equipment. The Group's research and development expenses inclusive of related staff cost, depreciation and amortisation in the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006 were RMB57.8 million, RMB57.7 million, RMB52.4 million and RMB43.3 million, respectively. As at July 2006, the Group employed 700 persons engaged in research and development, among whom 80 persons hold master's degrees or above, 85 persons are senior engineers and 14 persons receive special government allowances for their contribution to the enterprises and the State.

The Group develops new products both on its own initiative and at the request of its customers. If the new products the Group develops on its own initiative do not gain market acceptance or if demand for the new products fails to develop sufficiently, the Group may not be able to grow its business or generate sufficient revenues to sustain its profitability. In addition, not all contracts to develop new products for customers are coupled with firm purchase orders. Therefore, should there be any failures in the development or commercialisation of new products, the Group may not be able to recover its costs and expenses incurred in research and development.

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 success and sustained growth of the Group's business depends to a significant extent upon the continued contribution of key research and development personnel. Competition for qualified employees is intense, and the process of recruiting research and development personnel with necessary knowledge and experience could be difficult and time consuming. The Group's failure to attract and retain qualified research and development personnel may have a material adverse effect on the Group's ability to maintain its competitive position and to grow its business.

The Group faces increasing competition from foreign competitors

The Group faces increasing competition from leading foreign manufacturers of train-borne electrical systems. The MOR started to import products and technologies from leading foreign locomotive manufacturers in late 2004. As a result, the Group expects increasing competition in China from international competitors, many of which have greater financial, technical and other resources than the Group. Increasing competition may result in price reductions, reduced profit margin, and loss of market share for the Group.

The Group may become involved in intellectual property disputes

The Group has developed and used, and intends to develop and use, new technologies for the Group's products. There is no assurance that the Group's products do not and will not be alleged to infringe upon issued patents, pending patent applications or other intellectual property rights of third parties that may relate to the Group's products. In the event that any third party pursues any claims against the Group for patent infringement or violation of intellectual property rights, the defense of such suits or proceedings could be costly and may significantly divert the efforts and resources of the Group's technical and management personnel. If an adverse judgement is made against the Group in any litigation or proceedings relating to intellectual property, the Group may be required to pay substantial damages, cease the manufacture, use and sale of the infringing products, discontinue the use of certain processes or obtain licenses from the party whose intellectual property rights have been infringed. Protracted litigation could also result in the Group's customers or potential customers deferring or limiting their purchase or use of the Group's products until resolution of such litigation.

The Group may not be able to adequately protect its intellectual property, which could reduce its competitiveness

As the MOR requires uniform hardware for train operation safety equipment, the Group shares its hardware designs of train operation safety equipment with another supplier, and such arrangement may render the Group's intellectual property rights susceptible to misappropriation. The Group's industries are characterised by rapid technological changes and introduction of new products. Any leakage of intellectual property rights in respect of new products, innovations or technologies of the Group may adversely affect the Group's competitive position, business and results of operations. If that supplier of train operation safety equipment or its employees disclose the Group's technological know-how or intellectual properties to other competitors without the

Group's authorisation, the litigation or proceedings the Group could bring against such third parties could be costly and time consuming and may significantly divert the efforts and resources of the Group's technical and management personnel, which may adversely affect the Group's competitive position, business and results of operations.

As at the Latest Practicable Date, the Group had a total of 31 registered patents and 37 pending patent applications in the PRC. The Group does not have, and has not applied for, any patent for its proprietary technologies outside the PRC although it has sold, and expects to increase the sales of, its products outside of the PRC. As the protection afforded by the Group's patents is effective only in the PRC, others may use the Group's intellectual property without being subject to any penalty in foreign jurisdictions. Moreover, others may independently develop substantially equivalent technologies, or otherwise gain access to the Group's proprietary technologies, and obtain patents for such intellectual properties in other jurisdictions, including the countries in which the Group sells its products. If any third parties are successful in obtaining patents for technologies that are substantially equivalent to the technologies of the Group in any of the Group's overseas markets, the Group's ability to sell products containing the allegedly infringing intellectual property rights in those markets will be materially and adversely affected. If the Group is required to stop selling such allegedly infringing products, seek licenses and pay royalties for the relevant intellectual properties, or redesign such products with non-infringing technologies, the Group's business, results of operations and financial condition may be materially and adversely affected.

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 MOR started to import 200 km/h EMUs and related technologies in late 2004 and further transferred the acquired technologies to various domestic manufacturers. The Parent Company was one of the transferees of train power converter and control technologies. Following the incorporation of the Company, the Company has been implementing the EMU project for the Parent Company. In addition, the Parent Company is party to a supply agreement and a technology transfer agreement with CSEE Transport to develop an ATP system. The Company has also been implementing the ATP project for the Parent Company.

The Company and the Parent Company are in the process of procuring contract counter parties to agree in writing to the assignment of the rights and obligations in relation to the 200 km/h EMU project and the ATP project from the Parent Company to the Company. However, should such agreements not be reached, the Company may be subject to intellectual property right claims from contract counter parties, which may have a material adverse effect on the Company's business and results of operations.

The Group may not be able to procure components from suppliers on acceptable terms or in a timely manner

The Group procures raw materials and components only from vendors who have demonstrated quality control and reliability, and procures key components only from well known suppliers, which may be limited in number. The Group has not encountered any difficulties in the procurement of raw materials and components and does not maintain large inventories of raw materials and components. However, should any of the suppliers fail to supply components with acceptable quality, quantity and price and in a timely manner, particularly if the Group is unable to obtain those components from alternative suppliers on a timely basis or on commercially acceptable terms, the Group's production and delivery schedule of relevant products may be disrupted, which could result in lost revenues and customers. In addition, fluctuations in the supply and price of raw materials may have a material adverse effect on the Group's business and results of operations.

The Group's manufacturer's warranties may potentially expose the Group to significant claims

A majority of the Group's products are installed on trains and some of the products are specifically designed for monitoring the safety and operation of trains, and the Group warrants the design, workmanship and materials of many of those products.

The Group could be subject to product liability or warranty claims if any of the Group's warranted products does not conform to customer specifications or the failure or malfunctioning of any of the Group's products results in customers suffering monetary loss, property damage, personal injury, casualty or other losses or damages. Any material product liability or warranty claims in respect of the products or services supplied by the Group, if made, could result in costly product recalls, significant repair costs, significant damage payments and damage to the Group's reputation. In addition, the Group has no product liability insurance in respect of the Group's products and services and would have to bear all costs arising from product liability or warranty claims to the extent it is unable to recover from other parties. The occurrence of any of the foregoing may have a material adverse effect on the Group's business, results of operations and financial condition.

The Group's production and results of operations may be impaired by its manufacturing capacity constraints

The Group's ability to manufacture products is limited by the capacity of its production facilities and workforce. In order to meet customers' increasing orders in the future and to implement the Group's business strategies, the Group may need to expand its production capacity through either upgrading its existing equipment or acquiring new equipment and hiring skilled workers. There is no assurance that the Group will be able to upgrade existing equipment or acquire new equipment in a timely manner and at a reasonable cost, or that it will have access to a sufficient number of additional skilled workers. If the Group is unable to increase its production capacity effectively or in a timely manner, its results of operations and growth prospects may be adversely affected.

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

The Group has significantly revised and enhanced its internal control policies and procedures, partially to address the internal control weaknesses evidenced by an incident of fraud committed by three former management members of Times Fittings. During the period from 1998 to 2005, the three individuals engaged in certain fraudulent activities that resulted in the Group suffering a net loss after minority interest of approximately RMB3.5 million. For further details of the fraud, see the section headed "Business — Special Event". The Group has investigated the fraud and revised its internal control policies and procedures with a view to identifying and preventing any other improper activities within the Group. In August 2005, the Group introduced on a trial basis draft manuals for sales procedures, purchase procedures, inventory management procedures, financial settlement procedures and connected transaction procedures prepared by an independent international firm of risk management consultants. However, there is no assurance that even with the enhanced internal control system in place, the Group will be able to identity and prevent all fraudulent activities undertaken by any one or more individuals.

Loss or substantial reduction in tax benefits available to the Group would reduce the Group's net profits

The rate of enterprise income tax chargeable to companies in China may vary depending on the availability of preferential tax treatments or subsidies based on their industry or location. The current maximum enterprise income tax rate is 33%. See "Appendix V — Taxation" to this prospectus for further details. In accordance with the applicable enterprise income tax law of the PRC and the relevant rules promulgated by the MOF and the PRC State Administration of Taxation, the Company is exempt from enterprise income tax until 30 September 2007. The Company's subsidiaries are also exempt from or subject to a reduced rate of enterprise income tax. See "Financial Information — Description of Selected Income Statement Line Items — Income Tax Expense" for more details. The Company and its subsidiaries intend to continue to apply for preferential tax treatments upon the expiry of the current preferential tax treatments, but there is no assurance that they will be able to receive similar, or any, preferential tax treatment. Any loss or substantial reduction of any tax benefits enjoyed by the Group may materially reduce the Group's net profits.

Electricity shortages may adversely affect the Group's businesses

The Group's manufacturing processes require dependable supplies of electricity. The Group experienced several temporary electricity shortages in 2003, which forced the Group to make certain alternative manufacturing arrangements, but did not affect the Group's delivery of products or cause any material economic loss to the Group. If severe electricity shortages occur in the future and the Group is unable to minimise their effects by making satisfactory alternative manufacturing arrangements, such shortages could have a material adverse effect on the Group's business and results of operations.

The Group's insurance coverage may not be sufficient to cover the risks related to the Group's operations

The Group maintains property insurance in respect of its buildings, machinery, equipment and inventories, however, the coverage may not be adequate to cover all risks related to the Group's operations. Losses incurred or payments which the Group may be required to make may have a material adverse effect on the Group's results of operations if such losses or payments are not fully insured.

The Group may not achieve the same level of name recognition as its Parent Company

The Company was established through the Reorganisation, during which the Parent Company transferred to the Company its assets, technologies and employees relating to the Group's current business. The Parent Company also granted the Company a non-exclusive license to use the "TEG" brand. However, the Company adopted a name different from that of the Parent Company. The Parent Company's name is well-known in the PRC Railway industry and the urban rail industry due to its long history of providing technologically advanced and high quality rail-related products. It may take some time for the Group to achieve the same level of name recognition as its Parent Company, and there is no assurance that the Group will be able to achieve the same level of name recognition at all. This may have a material adverse effect on the Group's ability to secure existing customers and further penetrate into the urban rail market.

Changes in environmental laws and work safety regulations may have a material adverse effect on the Group

The Group is required to comply with all applicable state and local environmental laws and work safety regulations. However, if more stringent laws or regulations are adopted in the future, the Group's production capacity could be limited and the costs of compliance with these new laws or regulations could be substantial. Any failure to comply with such laws and regulations could result in fines, penalties or lawsuits.

RISKS RELATING TO THE INDUSTRY

The Group's financial performance is subject to overall PRC economic conditions and the MOR's policies

The PRC Railway industry and the urban rail industry in the PRC have historically been affected by overall economic conditions, the level of use of alternative methods of transportation and the levels of spending by the MOR or local governments on PRC Railway and urban rail projects. New orders for locomotives and passenger trains vary from year to year and are affected by major replacement programmes and the construction and expansion of railway and transit systems by the local railway administrations and relevant transportation authorities. In the meantime, the PRC Railway industry has been highly regulated in that the demand, price and quality of products (including components) used in locomotives and foreign competitors' access to the market are dependent on the MOR's policies. To the extent that future funding for proposed PRC Railway projects is curtailed or withdrawn altogether as a result of changes in political, economic or other conditions beyond the Group's control, such projects may be delayed or canceled, resulting in a loss of business for the Group. Any change in the MOR's policy on locomotive standards may also lead to increases of the Group's costs and therefore have a material adverse effect on the Group's business and profitability.

Changes in the MOR's pricing policy may have an adverse effect on the Group

A substantial portion of the Group's products have been, and the Group expects that a material portion of the Group's products will be, sold and supplied directly to, or indirectly through the rail vehicle manufacturers in the PRC to the MOR and its local railway administrations. Therefore, the ultimate users of the Group's products and services are principally the MOR and its local railway administrations. The demand and prices for the Group's products and services are primarily driven, directly or indirectly, by the MOR's policies. The MOR normally sets prices through a bidding process, having taken into account the prices of similar products, the cost structure provided by the rail vehicle manufacturers and the negotiations on an acceptable profit margin. The adoption of more stringent pricing policies by the MOR could have a material adverse effect on the Group's business and profitability.

The MOR's market accession policy on imports may have a material adverse effect on the Group

In order to satisfy the demand for railway passenger and freight transportation, the MOR has put a great emphasis on increasing the operating speed of trains. The MOR has implemented five train speed increases in the past and is in the process of implementing a sixth train speed increase. To that end, the MOR started to import foreign products and technologies in late 2004. In the meantime, the MOR encourages development of proprietary technologies and has formulated certain localisation policies relating to procurement of trains and related equipment. If the PRC Government switches to a more liberal policy on imports or reduces the targeted localisation rate, the Group may face more intense competition, and the Group's execution of its business plan and results of operations may be materially and adversely affected.

There is competition from other modes of transportation

Railway transportation is one of the four main modes of passenger and freight transportation, namely, railway, road, waterways and aviation. In the PRC, freight traffic volumes predominantly utilise the railway, road and water networks and passenger traffic volumes mainly utilise railway and road networks. If competition from the other three modes of transportation increases or there is any material change in the customary patterns of the modes of transportation, the Group's business, profitability and operating results may be indirectly and adversely affected.

RISKS RELATING TO THE PRC

The Group's manufacturing facilities and most of the Group's suppliers and customers are located in the PRC. As a result, the Group's operations and assets are subject to significant political, economic, legal, regulatory and other uncertainties associated with doing business in 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 economy of the PRC differs from the economies of most developed countries in many respects, including structure, level of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. The PRC economy has been transitioning from a planned economy to a more market-oriented economy. For the past two decades, the PRC Government has implemented economic reform measures emphasising utilisation of market forces in the development of the PRC economy. The Directors cannot predict whether changes in the PRC's political, economic and social conditions, laws, regulations and policies will have any material adverse effect on the Group's current or future business, results of operations or financial condition.

The PRC legal system is not fully developed and investors may not have the same level of legal protection as in other jurisdictions

The Company is organised under the laws of the PRC and is governed by its Articles of Association, which have been amended to comply with the Listing Rules. The PRC legal system is based on written statutes and their interpretation by the Supreme People's Court and the Standing Committee of the National People's Congress. Prior court decisions may be cited for reference but have limited weight as precedents. Since 1979, the PRC Government has been developing a comprehensive system of commercial laws and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, because these laws and regulations are relatively new, and because of the limited number and non-binding nature of published cases, the interpretation and enforcement of these laws and regulations involve uncertainties.

In particular, the PRC Company Law is different in certain important aspects from company laws in Hong Kong, the US and other common law countries or regions, particularly with regard to investor protection, including areas such as derivative actions by minority shareholders and other measures protecting minority shareholders, restrictions on directors, disclosure obligations, variations of class rights, procedures at general meetings and payments of dividends. The limited protection of investors under the PRC Company Law is compensated for, to a certain extent, by the introduction of the Mandatory Provisions and certain additional requirements that are imposed by the Listing Rules with a view to reducing the scope of differences between Hong Kong company law and the PRC Company Law. The Mandatory Provisions and those additional requirements must be included in the articles of association of all PRC companies applying to be listed in Hong

Kong. The Group's Articles of Association have incorporated the provisions required by the Mandatory Provisions and the Listing Rules. Despite the incorporation of those provisions, there is no assurance that investors will enjoy an equal level of protection that they may be entitled to when investing in companies incorporated 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

Under the existing foreign exchange regulations in the PRC, following completion of the Global Offering, the Group may undertake current account foreign exchange transactions, including payment of dividends, without prior approval from SAFE, by producing commercial documents evidencing such transactions, provided that they are processed through PRC banks licensed to engage in foreign currency transactions. The PRC Government has stated publicly that it intends to make the Renminbi freely convertible for some of the recurring activities in the future, but prior approval is still required for other activities which are capital in nature. However, uncertainty exists as to whether the PRC Government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in the PRC.

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 value of the Renminbi is subject to changes in the PRC Government's policies and depends to a large extent on China's domestic and international economic and political developments, as well as supply and demand in the local market. Since 1994, the official exchange rate for the conversion of Renminbi to US dollars has generally been stable, though the Renminbi has recently appreciated slightly against the US dollar. However, given the increasing trade surplus between the PRC and its major trading counterparts, there can be no assurance that the value of the Renminbi will continue to remain stable against the US dollar or any other foreign currency. Any appreciation of the Renminbi may subject the Group to increased competition from imported products; any devaluation of the Renminbi may adversely affect the value of, and dividends payable on, the H Shares in foreign currency terms since the Group will receive most of the Group's revenues and express the Group's profits in Renminbi.

The exemption from withholding tax on dividends and income currently available may not continue in the future

Under current PRC tax laws, regulations and rulings, dividends paid by the Group to holders of H Shares who are foreign individuals not resident in the PRC or which are foreign enterprises with no permanent establishment in the PRC are not currently subject to PRC withholding tax. In addition, gains realised by individuals or enterprises upon the sale or other disposition of H Shares are not currently subject to PRC income tax. There can be no assurance, however, that withholding or capital gains taxes will not become applicable to those dividends or gains in the future. In such event, holders of H Shares could become subject to withholding tax on dividends, which is currently imposed at the rate of 20% or to income tax, which may be imposed at a rate equaling or exceeding 20%, unless reduced or eliminated by an applicable taxation treaty between China and the country in which such foreign individual or enterprise resides.

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 Company is a joint stock company incorporated in the PRC with limited liability. As at the Latest Practicable Date, all of its Directors (except Chan Kam Wing, Clement and Pao Ping Wing), Supervisors and senior management personnel (except Tang Tuong Hock, Gabriel) reside within China, and much of the assets of the Company and of such persons (except Chan Kam Wing, Clement, Pao Ping Wing and Tang Tuong Hock, Gabriel) are located within the PRC. Therefore, it may not be possible for investors to effect service of process upon such persons within the PRC or to enforce against the Company or such persons within the PRC any judgements obtained from non-PRC courts. The PRC does not have treaties or arrangements providing for the recognition and enforcement of civil judgements of the courts of the UK, the US or most other countries or Hong Kong. Therefore, recognition and enforcement in the PRC of judgments obtained in such jurisdictions may be difficult.

The outbreak of epidemics may have a material adverse effect on the Group's business, results of operations and financial condition

Certain areas of the PRC have experienced epidemics in the recent past. An outbreak of any epidemics in the PRC, such as Severe Acute Respiratory Syndrome or avian flu, may result in material disruptions to the operations of the Group. In addition, any such outbreak, if uncontrolled, could have an adverse effect on the overall business sentiments and environment in the PRC, which in turn may have an adverse effect on the overall economic growth of the PRC. As the PRC's economic growth has been a major driving force of the Group's business growth, any contraction or slowdown in the PRC economy may adversely affect the Group's business and results of operations.

RISKS RELATING TO THE GLOBAL OFFERING

There has been no prior public market for the Group's H Shares

Prior to the Global Offering, there was no public market for the Group's H Shares. The initial Offer Price range for the Group's H Shares was the result of negotiations among the Group and the Global Coordinator on behalf of the Underwriters, and the Offer Price may differ significantly from the market price for the H Shares following the Global Offering. The Group has applied to list and deal in the Group's H Shares on the Stock Exchange. However, being listed on the Stock Exchange does not guarantee that an active trading market for the Group's H Shares will develop following the Global Offering.

The liquidity and market prices of the Group's H Shares following this Global Offering may be volatile

The price and trading volume of the Group's H Shares may be highly volatile. Factors such as variations in the Group's revenues, earnings and cash flows and announcements of new investments, strategic alliances and/or acquisitions, fluctuations in market prices and/or demand for the Group's products and services could cause the market price of the Group's H Shares to change substantially. Any such developments may result in large and sudden changes in the volume and price at which the Group's H Shares will trade. The Group can give no assurance that these developments will not occur in the future. In addition, shares of other PRC companies listed on the Stock Exchange have experienced substantial price volatility in the past, and it is possible that the H Shares will be subject to changes in price that may not be directly related to the Group's financial or business performance.

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 in the market and may affect the price of the H Shares

Pursuant to the approval of the SASAC and the NSSF Council, the Parent Company, CSR Qishuyan and New Leap are required to transfer to the NSSF Council a certain number of Domestic Shares which are in aggregate equivalent to 10% of the number of Offer Shares. These Domestic Shares will be converted into H Shares on a one-for-one basis upon listing and will be held by the NSSF Council immediately thereafter. The NSSF Council will retain approximately 36,056,000 H Shares, representing approximately 3.5%, or 41,464,000 H Shares, representing approximately 3.8% of the total issued share capital of the Company following the completion of the Global Offering, assuming that the Over-allotment Option is not exercised or is exercised in full, respectively. As advised by the Company's PRC counsel, Grandall Legal Group Hangzhou, there is no legal restriction on the ability of the NSSF Council to transfer or dispose of such H Shares following the listing. The above-mentioned arrangement will result in an increase of the number of H Shares available in the market following the Listing Date and may, directly or indirectly, affect the trading price of the H Shares following the listing.

For further details in relation to the above, please refer to "Share Capital — Transfer of Sate-owned 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

Subject to approval by the CSRC, the holders of Domestic Shares may transfer their shares to overseas investors and such shares may be listed or traded on an overseas securities exchange. Any listing or trading of the transferred shares on an overseas securities exchange must comply with the regulatory procedures, rules and requirements of such overseas securities exchange. No class meeting of shareholders will be required for such transfer and listing of shares overseas. Potential conversion of a substantial amount of Domestic Shares into H Shares could further increase the supply of the H Shares in the market and could negatively affect the market price of the H Shares.

The industry statistics contained in this prospectus are derived from various official government sources that may not be reliable

Statistical and other information relating to the PRC, the PRC Railway market, urban rail market, train-borne electrical systems and electrical component industries contained in this prospectus have been compiled from various official government sources. However, the Group cannot guarantee the quality and reliability of such source materials. Moreover, statistics derived from multiple sources may not be prepared on a comparable basis. Neither the Group nor the Underwriters have verified the accuracy of the information contained in such sources. The Group makes no representation as to the accuracy of this information, which may not be consistent with other information compiled within or outside the PRC. Accordingly, the official government industry information and statistics contained herein may not be accurate and should not be unduly relied upon.

Dividends distributed in the past may not be indicative of the Company's dividend policy in the future

The Company declared a special dividend of RMB167,538,000 to its shareholders on 29 November 2006 and such special dividend has been fully settled in cash financed by new short-term bank loans. As the special dividend was financed by new short-terms bank loans, the Company's interest payment and gearing ratio will increase as a result. Any future declaration of dividends will be proposed by the Company's Board of Directors and the amount of any dividends will depend on various factors, including the Company's results of operations, financial condition, future business prospects and other factors that the Board may determine to be important. For further details of the Company dividend policy, see "Financial Information — Dividend Policy". The Company cannot guarantee if and when it will pay dividends 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

Prior to the publication of this prospectus, there was press and media coverage regarding the Company and the Global Offering, including in the South China Morning Post and The Standard on 1 December 2006, which included certain financial information, financial projections, valuations and other information about the Company that does not appear in the prospectus. The Company has not authorised the disclosure of any such information in the press or media. The Company does not accept any responsibility for any such press or media coverage or the accuracy or completeness of any such information. The Company makes no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. To the extent that any such information appearing in publications other than this prospectus is inconsistent or conflicts with the information contained in this prospectus, the Company disclaims it. Accordingly, prospective investors should not rely on any such information. In making your decision as to whether to purchase our H Shares, you should rely only on the financial, operational and other information included in this prospectus.