HISTORY AND CORPORATE DEVELOPMENT

The Parent Company

The Parent Company, was founded in 1959 as a research division under the MOR to engage in the research and development of electric locomotives and related products.

In February 1986, LORIC was established under the MOR and the Parent Company subsequently became a research division under LORIC. In 2002, LORIC was divided into two entities upon the approval of the State Council, namely CSR and CNR, which were directly supervised by SASAC. As part of the restructuring, the Parent Company became a subsidiary of CSR, which held a 51% equity interest in the Parent Company. CNR, the other equity holder, held a 49% equity interest in the Parent Company. The name of the Parent Company was changed to CSR Zhuzhou Electric Locomotive Research Institute on 18 February 2003.

Prior to completion of the Reorganisation, the principal business of the Parent Company was the research, manufacture and sale of (i) electrical systems and components for railways, electric automobiles and other applications and (ii) mechanical and synthetic products for railway systems. All of the business currently undertaken by the Company was undertaken by the Parent Company.

The Parent Company has been engaged in the research and development of electric locomotives and related products for nearly five decades. During such period, the Parent Company contributed significantly to the development of the PRC locomotive industry. The Parent Company has been accredited as a high-tech enterprise in Hunan province by the Hunan Provincial Department of Science and Technology. In addition, the Parent Company has been recognised as a national manufacturing base of AC train power converters and control systems for urban rail by the NDRC, and a testing and inspection centre of electrical traction equipment by the MOR. It has also been designated by IEC to participate in setting IEC/TC9 international standards.

The Parent Company's first subsidiary, Times Electronics, was incorporated in 1992. Times New Material, a 16.79% equity interest in which is owned by the Parent Company, was listed on the Shanghai Stock Exchange on 19 December 2002. The principal business of Times New Material is development, manufacture, sales and marketing of engineered rubber and plastic products.

Starting in 2004, the Parent Company underwent the Reorganisation whereby the Company was established on 26 September 2005.

Reorganisation

The Parent Group underwent the following reorganisation steps with an effective date of 30 September 2004 in preparation for the incorporation of the Company:

On 20 September 2004, the Parent Company and Times Investment entered into an agreement with 15 individuals to acquire 60% and 10% interests, respectively, in Times Electronics for considerations of RMB54,900,000 and RMB9,150,000, respectively. Following the completion of the acquisition, Times Electronics was beneficially held as to 90% by the Parent Company.

On 20 September 2004, the Parent Company, Times Electronics, Times Investment, Yong'an Locomotive Depot Xiamen Industrial Company and various individuals entered into an agreement pursuant to which Times Electronics acquired the 5%, 34.29%, 25.71% and 35% interests in Zhuzhou Jierui held by Yong'an Locomotive Depot Xiamen Industrial Company, Times Investment, the Parent Company and the various individuals (including three individuals who are Directors and sold an aggregate 5% equity interest in Zhuzhou Jierui), respectively, for an aggregate consideration of RMB17,500,000. The consideration was negotiated between Times Electronics and each seller (including three individuals who are Directors) with reference to an asset valuation report issued by a PRC valuer. Upon the completion of the acquisition, Zhuzhou Jierui was deregistered and its assets, liabilities and businesses were transferred to Times Electronics.

Pursuant to the Reorganisation, the Parent Company also acquired the 40% remaining interest not already held in Times Monitor for a consideration of RMB16,000,000 and the 1.67% interest not already held in Times PCB for a consideration of RMB598,000. Upon completion of the acquisitions, Times Monitor and Times PCB were deregistered and the assets, liabilities and businesses of these companies were later transferred to the Company pursuant to the Reorganisation as part of the Relevant Businesses (as defined below).

As part of the Reorganisation, in 2004, the Parent Company acquired a 80% equity interest in Times Fittings from 26 individuals for a consideration of RMB7,200,000, including a 3.08% equity interest in Times Fittings from one individual who is a Director for RMB276,900. The consideration was negotiated between the Parent Company and the individual with reference to an asset valuation report issued by a PRC valuer. As part of the Reorganisation, Times Fittings was deregistered on 30 September 2004 and the assets, liabilities and businesses of Times Fitting were later transferred to the Company pursuant to the Reorganisation as part of the Relevant Businesses (as defined below).

On 6 April 2005, the Promoters entered into a promoters' agreement whereby the Parent Company agreed to subscribe for 94.06% of the Company's equity interest and the other four Promoters agreed to subscribe for the remaining 5.94% of the equity interest of the Company.

On 26 September 2005, the Company was incorporated upon approval of SASAC. In accordance with the valuation report (Kai Yuan Suo Ping Bao Zi [2005] No.502) issued by 湖南開元有限責任會計師事務所 (Hunan Carea Certified Public Accountants Co. Ltd.), the Parent Company subscribed for 94.06% of the Company's equity interest by contributing the businesses of research, development, production and sale of train-borne electrical systems, power semiconductor devices, sensors and related products and other electrical components (the "**Relevant Businesses**") together with related net assets equivalent to RMB629,811,637 valued as at 30 September 2004 including, inter alia:

- an aggregate of 3,487 pieces of machinery and equipment;
- 51 buildings used for the purposes of manufacturing, experiment, inspection and testing, along with ancillary public utilities and offices, with an aggregate floor area of approximately 93,784 sq.m.;

- land use rights over nine pieces of land with an aggregate area of 183,607.05 sq.m.;

- 38 items of intangible assets, including 16 patents and copyrights owned by the Parent Company, seven patents and copyrights purchased by the Parent Company from third parties and 15 patents and copyrights owned by Times Electronics;

- a 90% equity interest in Times Electronics;

- 100% equity interest in the predecessor of Ningbo Company; and

- cash and cash equivalent, debtors, stocks and liabilities such as creditors, borrowings.

The other four Promoters subscribed for the remaining aggregate of 5.94% of the equity interest in the Company with cash. The table below sets forth the five Promoters' shareholdings in the Company upon its incorporation on 26 September 2005:

	Consideration (RMB)	**Shareholding percentage**
The Parent Company	629,811,637	94.06%
CSR Qishuyan	10,000,000	1.49%
New Leap	10,000,000	1.49%
ZELC	10,000,000	1.49%
Kunming China Railway	9,800,000	1.47%

CSR Qishuyan is a PRC state-owned enterprise that is wholly owned by CSR and is principally engaged in development and manufacture of diesel locomotives and related products.

New Leap is a limited liability company that is 100% beneficially owned by CSR and is principally engaged in the leasing of locomotives. New Leap also invests in certain rail vehicle manufacturers.

ZELC is a limited liability company that is 98.74% beneficially owned by CSR and is principally engaged in development and manufacture of electric locomotives, EMUs and rail vehicles for urban rail systems.

Kunming China Railway is a limited liability company that is principally engaged in development and manufacture of large railway maintenance vehicles.

As the businesses of the four Promoters are different from those of the businesses of the Group, the Directors do not consider that any of CSR Qishuyan, New Leap, ZELC or Kunming China Railway is in competition with the Group.

In accordance with the Reorganisation Agreement, the Parent Company has made certain indemnity undertakings to the Company, including undertaking to indemnify the Company against: (i) all tax and liability incurred before the Reorganisation relating to the transferred assets and businesses or tax and liability incurred relating to the Reorganisation; (ii) claims made against the Company after the reorganisation caused by the Parent Company's fault or mistake; (iii) claims made against the Company caused by the Parent Company's failure to perform the Reorganisation Agreement; and (iv) claims made against the Company because of its holding of transferred assets and businesses.

Retained business

Upon the completion of the Reorganisation, the Parent Company retained its business of (i) research, development and manufacture of key parts of electric automobiles and (ii) provision of catering services, accommodation, conference rooms and transportation. In addition, the Parent Company retained the assets and liabilities primarily relating to the following businesses:

(i) NERCC, a wholly-owned subsidiary of the Parent Company primarily engaged in basic research and development of medium to high voltage electrical converters for non-railway markets;

(ii) a 100% equity interest in CSR ZELRI Times Electro-technical Factory, which is primarily engaged in manufacture of mechanical and electro-mechanical products;

(iii) a 16.79% equity interest in Times New Materials, which is primarily engaged in research, development and manufacture of engineered rubber and plastic products for railway and other applications;

(iv) a 40% equity interest in Zhuzhou Electric Automobile Demonstration Co., Ltd., which provides inner-city road transportation with the electric automobiles;

(v) a 27% equity interest in Ningbo Jiangbei Gofront Herong Electric Co., Ltd., which is primarily engaged in research, development and manufacturer of capacitors for various applications;

(vi) a 13% equity interest in Zhuzhou CSR Electric, which is primarily engaged in research, development and manufacturer of traction motors and transformers primarily for rail vehicle applications;

(vii) a 12.61% interest in ZELC, which is primarily engaged in research, development and manufacturer of electric locomotives for PRC Railways and vehicles for urban rail systems; and

(viii) a 1.06% equity interest in Kunming China Railway, which is primarily engaged in research, development and manufacturer of large railway maintenance vehicles.

The Directors and the PRC counsel of the Company have confirmed that the above businesses do not compete with the Group's business. In addition, the Parent Company retained certain assets and liabilities that were historically associated with the Relevant Businesses in an aggregate amount of RMB202.5 million. See "Financial Information — Reorganisation and Basis of Presentation" for details.

In addition to the equity interest, assets and liabilities described above, the Parent Company also retained its equity interests in two Sino-foreign joint venture enterprises, namely, Siemens Zhuzhou and Shiling. The Parent Company holds a 17% equity interest in Siemens Zhuzhou and a 50% equity interest in Shiling. The Company is in the process of acquiring the Parent Company's equity interests in Siemens Zhuzhou and Shiling. For further details of Siemens Zhuzhou and Shiling, see the section headed "— Businesses to be acquired by the Company" below. See also "Risk Factors — The transfer of the Parent Company's joint venture interests and the Group's arrangements with joint venture parties may not be successful".

Businesses acquired by the Parent Company after the Reorganisation

The Parent Company also acquired certain equity interests after the Reorganisation, including:

(i) a 100% equity interest in CSR Beijing Locomotive & Rolling Stock Machinery Works, which is primarily engaged in manufacturer of railroad lifting equipment and mechanical parts;

(ii) an aggregate 72.35% equity interest (direct and indirect) in Beijing CSR Times Heavy Industrial Machinery Co., Ltd., which is primarily engaged in manufacture of construction machinery;

(iii) a 48.33% equity interest in Beijing Times Power Technology Co., Ltd., which is primarily engaged in manufacture of parts of electric automobiles; and

(iv) a 38% equity interest in Guiyang Times Vonton Co., Ltd., which is primarily engaged in manufacture of permeable membranes.

The Directors and the PRC counsel of the Company have confirmed that the above businesses do not compete with the Group's business.

Non-competition Undertaking

Pursuant to a non-competition undertaking made by each of the Parent Company and CSR on 30 November 2006, each of the Parent Company and CSR has agreed to support the Company's existing business and future business development, and not to engage in any business which will compete with or may compete with the Company's existing business or future business. For details, please refer to the section headed "Relationship with the Parent Company and Connected Transactions — Competition".

Development after the Reorganisation

Times Electric US, a wholly-owned subsidiary of the Company, was incorporated in Pennsylvania, USA on 4 November 2005, and is engaged in sales and trading of electric, electronic and mechanical products.

On 20 June 2006, Ningbo Company was converted from a state-owned enterprise into a limited liability company under the Company Law.

Pursuant to an equity transfer agreement entered into between the Company and Times Investment on 31 May 2006, the Company acquired an additional 10% equity interest in Times Electronics from Times Investment for a consideration of RMB9,150,000 based on Times Investment's initial capital contribution. Pursuant to the equity transfer agreement, Times Investment would also be entitled to 10% of the net profits of Times Electronics for the period from 1 January 2006 to 30 June 2006. After the equity transfer, the Company holds 100% equity interest in Times Electronics.

Businesses to be acquired by the Company

The Parent Company, together with other investors, established Siemens Zhuzhou and Shiling. Pursuant to its management committee's resolutions dated 12 April 2006, the Parent Company agreed to transfer its equity interests in Siemens Zhuzhou and Shiling to the Company, subject to other joint venture investors' consents and PRC Government approvals.

Siemens Zhuzhou

Siemens Zhuzhou is a sino-foreign equity joint venture company established by Siemens Ltd., China, ZELW and ZELRI on 28 November 1998 according to the PRC sino-foreign joint venture law. The registered capital of Siemens Zhuzhou is RMB128,989,000, held as to 51%, 32% and 17% by Siemens Ltd., China, ZELW and ZELRI, respectively. The term of the joint venture is 30 years from the date of establishment, subject to early termination if, among other things, any one of the following occurs: (i) a party is in material breach of the joint venture agreement and such material breach threatens the continuing operation of the joint venture or the right of the innocent party and such breach has not been remedied within 120 days of receipt of the written notice from the innocent party; (ii) a party cannot or, within a foreseeable period, will not be able to discharge its obligations under the joint venture agreement; (iii) an order is made or a resolution is passed for the winding-up (whether solvent or insolvent) of a party and, in case of an order, such order is not repealed within 60 days; (iv) a party is insolvent, or the actual value of its assets continuously depreciates; (v) a liquidator or similar officer has been appointed to a party; (vi) the equity interest of a party is taken over by or transferred to its creditor; (vii) a party is dissolved; (viii) the joint venture cannot pay off its debt after five years of obtaining the business registration; (ix) the joint venture cannot meet its revenue target or incurs losses for five consecutive years and the losses have not changed and the parties are not satisfied; (x) if 25% or more of the equity is controlled by a competitor of a party to the contract; or (xi) in the event of force majeure.

The business scope of Siemens Zhuzhou is to design, develop and manufacture AC propulsion locomotives and other AC propulsion rail vehicles and key components and to sell the products manufactured by the joint venture. Siemens Zhuzhou occupies office premise with a gross floor area of 489 sq.m. Siemens Zhuzhou had no active business operations as at the Latest Practicable Date and expects to commence active business operations in late 2007. To the best of the Group's knowledge, Siemens Zhuzhou may focus its business on development and manufacture of AC propulsion locomotives and related key equipment in the future, which may compete with the Group's products if the acquisition is not consummated. As Siemens Zhuzhou currently has no active business operations and its active business operations are not expected to commence until August 2007, the Company does not consider that Siemens Zhuzhou will become a competitor of the Company before completion of the acquisition.

After the Reorganisation, ZELRI has decided to transfer the equity interest held by it in the registered capital of Siemens Zhuzhou to the Company and the proposed transfer was approved by the management committee of ZELRI dated 12 April 2006. On 18 July 2006, ZELRI and the Company entered into an equity interest transfer agreement, which will become effective upon the satisfaction of certain conditions precedent, including among others, the approval at the Company's shareholders' meeting and relevant government approval. The equity transfer was approved at the Company's shareholders' meeting on 24 June 2006. According to the equity interest transfer agreement, the consideration the Company will pay to ZELRI for its 17% equity interest is 17% of the sum of a base price and adjustment. The base price is the higher amount of (i) Siemens Zhuzhou's net assets as of 31 December 2005 as valued by a valuation agency designated by both parties and (ii) Siemens Zhuzhou's net assets on its accounts as of 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.

According to the consents dated 15 May 2006 and 5 June 2006, ZELW and Siemens Ltd. China have also given their respective consents to the proposed transfer of ZELRI's 17% equity interest in Siemens Zhuzhou. Upon completion of the proposed equity transfer, the Company will hold a 17% equity interest in Siemens Zhuzhou.

The Company's PRC counsel has confirmed that they believe there is no material legal impediment to completion of the proposed transfer of equity interest by ZELRI to the Company.

Shiling

Shiling is a sino-foreign equity joint venture company established by Mitsubishi Electric Corporation, Mitsubishi Electric (China) Ltd. and ZELRI on 8 April 2005 according to the PRC sino-foreign joint venture law. The registered capital of Shiling is US$14,000,000, held as to 40%, 10% and 50% by Mitsubishi Electric Corporation, Mitsubishi Electric (China) Ltd. and ZELRI, respectively. The term of the joint venture is 20 years from the date of establishment, subject to early termination when, among other things, any one of the following occurs: (i) the joint venture incurs a loss for three consecutive financial years, excluding the first financial year after its establishment; (ii) the loss has caused a serious impact on the joint venture such that it cannot continue to operate; (iii) an order is made or a resolution is passed for the winding-up of a party, or a party has appointed an administrator or a similar officer is appointed; (iv) an event of force majeure has continued for 90 days; (v) there has been a change of control of either party; or (vi) ZELRI fails to transfer its land use right at the date of completion of the capital contributions.

Shiling has production premises located in the High and New Technology Zone in Zhuzhou with a gross floor area of 9,371.4 sq.m., and started operation in March 2006. Mitsubishi Electric Corporation provides technologies for Shiling. The business scope of Shiling is to design, develop, manufacture, sell and provide after-sale services relating to electrical and mechanical components of rail vehicles. Shiling focuses its business on development and manufacture of electrical systems used in trains for urban rail systems. Shiling manufactures train power converters, auxiliary converters for medium-and-high speed trains and train information management systems, which compete with the Group's products. Shiling is currently only capable of assembly and testing. Owing to Shiling's current limited production capabilities and lack of qualification to bid independently for urban rail projects, the Company considers the relationship with Shiling a strategic partnership rather than competition even if the acquisition fails to materialise.

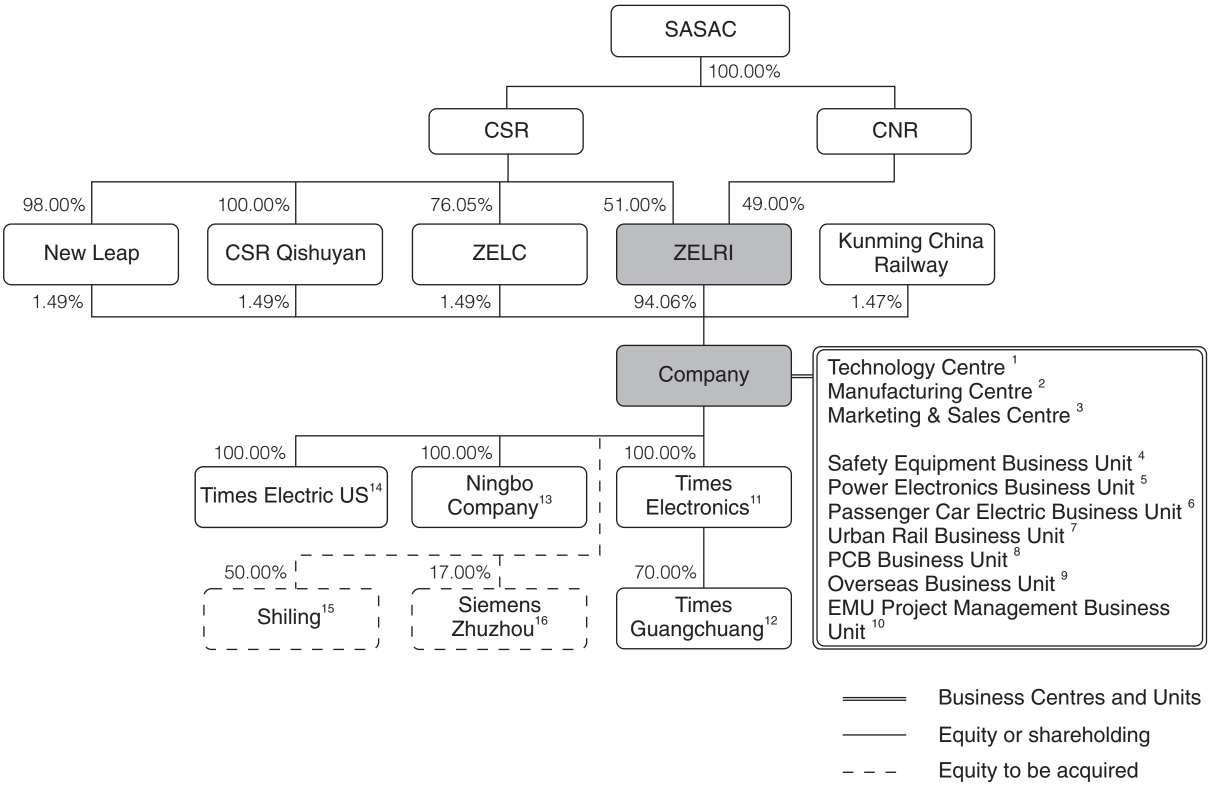
ZELRI has decided to transfer the equity interest held by it in the registered capital of Shiling to the Company and the proposed transfer was approved by the management committee of ZELRI dated 12 April 2006. On 11 April 2006, ZELRI and the Company entered into an equity interest transfer agreement, which will become effective upon the satisfaction of certain conditions precedent, including among others, the approval at the Company's shareholders' meeting and relevant government approval. The equity transfer was approved at the Company's shareholders' meeting on 24 June 2006. According to the equity interest transfer agreement, the consideration the Company will pay to ZELRI is 50% of the sum of a base price and adjustment. The base price is the higher amount of (i) Shiling's net assets as of 31 December 2005 as valued by a valuation agency designated by both parties and (ii) Shiling's net assets on its accounts as of 31 December 2005. The adjustment is equal to the difference between Shiling's net assets on its accounts on 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 both ZELRI and the Company.

According to the consent dated 12 June 2006, Mitsubishi Electric Corporation and Mitsubishi Electric (China) Ltd. have waived their rights of first refusal with respect to ZELRI's 50% equity interest in Shiling. Upon completion of the proposed equity transfer, the Company will hold a 50% equity interest in Shiling. The equity transfer is expected to take place by the end of 2007.

The Company's PRC counsel has confirmed that they believe there is no material legal impediment to completion of the proposed transfer of equity interest by ZELRI to the Company.

The Group's shareholding structure immediately before and after the Global Offering

Set forth below is the Group's simplified shareholding structure immediately before the Global Offering.



Notes:

(1) The Technology Centre (技術中心) is principally responsible for the research and development of train power converters and control systems.

(2) The Manufacturing Centre (製造中心) is principally responsible for the manufacture of train power converters, auxiliary power supply equipment and control systems and train operation safety equipment.

(3) The Marketing and Sales Centre (營銷中心) is principally responsible for the sales and marketing of products sold to domestic locomotive works, the MOR and its local railway administrations.

(4) The Safety Equipment Business Unit (安全裝備部) is principally responsible for the research and development, sales and marketing of train operation safety equipment.

(5) The Power Electronics Business Unit (電力電子事業部) is principally responsible for the research and development, manufacture and sales of power semiconductor devices.

(6) The Passenger Car Electric Business Unit (客車電氣事業部) is principally responsible for the research and development and sales of auxiliary power supply equipment and electrical systems in passenger trains.

(7) The Urban Rail Business Unit (城軌事業部) is principally responsible for the development of domestic urban rail market.

(8) The PCB Business Unit (印刷電路事業部) is principally responsible for the manufacture and sales of printed circuits and low inductance busbar products.

(9) The Overseas Business Unit (海外事業部) is principally responsible for the development of overseas business.

(10) The EMU Project Management Business Unit (動車組項目部) is principally responsible for the management of 200 km/h or above EMU projects.

(11) Times Electronics is a limited liability company incorporated in the PRC on 28 December 1992. Times Electronics specialises in the manufacture of electrical control systems for large railway maintenance vehicles in co-operation with Kunming China Railway. It is mainly responsible for the production and after-sales service of electrical control systems of large railway maintenance vehicles.

(12) Times Guangchuang is a limited liability company incorporated in the PRC on 15 May 2001. Times Guangchuang is engaged in development, manufacture and sales of electric supply systems for locomotive air-conditioners. Senior management members Pang Yiming, Liu Kuojun and Wang Yingyao, each holding 10% of the issued share capital in Times Guangchuang, are connected persons pursuant to the Listing Rules.

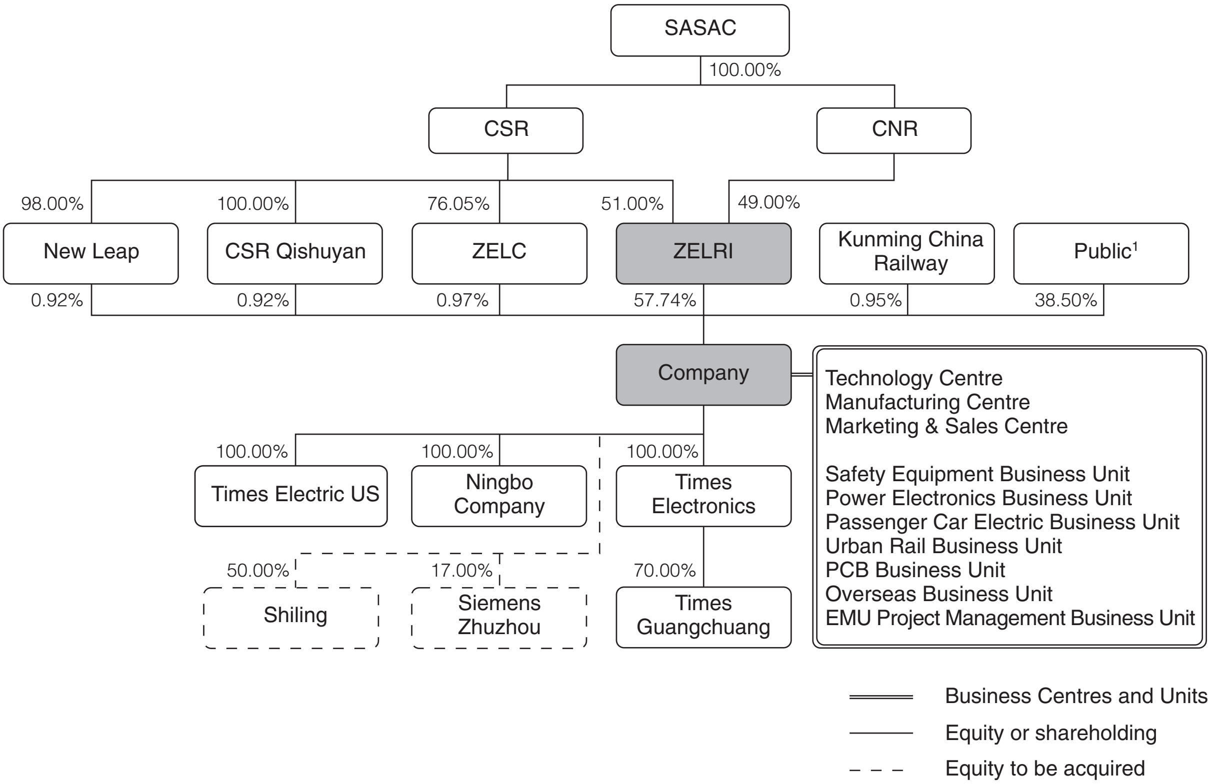
(13) Ningbo Company was formed on 4 February 1992 as a state-owned enterprise and was converted to a limited liability company on 20 June 2006. Ningbo Company's principal business is the development and manufacture of sensors and vacuum sanitary units.

(14) Times Electric US is a limited liability company incorporated in Pennsylvania, USA on 4 November 2005. Times Electric US is responsible for the sales and trading of electric, electronic and mechanical products in the North American market.

(15) The Company is in the process of acquiring from the Parent Company a 50% equity interest in Shiling. Shiling is principally engaged in the development and manufacture of electrical systems used in trains for urban rail systems.

(16) The Company is in the process of acquiring a 17% equity interest in Siemens Zhuzhou from the Parent Company. 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.

Set forth below is the Group's simplified shareholding structure immediately after the Global Offering (assuming the Over-allotment Option is not exercised).



Note:

(1) The public shareholding of 38.50% will include 36,056,000 H-Shares held by NSSF, which will represent a 3.50% interest in the Company.