MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis in conjunction with the Company's consolidated financial statements and the related notes as set forth in "Appendix I — Accountants' Report". The financial statements have been prepared in accordance with IFRS.

The following discussion and analysis contain forward-looking statements that involve risks and uncertainties. Factors that could cause or contribute to such risks and uncertainties include, without limitation, those disclosed in the section headed "Risk Factors".

OVERVIEW

The Group is the leading train-borne electrical system provider and integrator for the PRC Railway industry and is also engaged in developing, manufacturing and selling train power converters, auxiliary power supply equipment and control systems used on trains for urban rail systems. In addition, the Group designs, manufactures and sells electrical components for PRC Railways, urban rail and non-railway applications.

The Group's products can be divided into two broad categories: train-borne electrical systems and electrical components. The table below sets forth the main products in each category:

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

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, respectively, 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 principal source of the Group's turnover is the sale of train-borne electrical systems. For the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, sales of train-borne electrical systems were RMB495.6 million, RMB607.2 million, RMB781.0 million and RMB529.0 million, respectively, accounting for 75.2%, 77.1%, 78.3% and 83.5% of the Group's total turnover. The Group's key customers are rail vehicle manufacturers and the MOR and its local railway administrations. 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 the Group's total turnover. All the top five customers were rail vehicle manufacturers and local railway administrations or agents of either of them except for two for the year ended 31 December 2003, which were associated with the Parent Company and are now part of the Group after the Reorganisation. Sales to those two customers accounted for 11.0% of the Group's total turnover for the year ended 31 December 2003.

The following table sets forth the Group's selected income statement for the periods presented, as derived from the Accountants' Report in Appendix I to this prospectus.

	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
				(Unaudited)	
	(RMB thousands)				
Turnover	658,762	787,756	997,976	541,363	633,927
Cost of sales	(388,372)	(464,696)	(542,314)	(286,831)	(326,466)
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	(809)	(1,086)	273	—	(306)
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	17,878	8,256	—	—	—
Profit from operating activities before tax and minority interests	96,412	185,047	218,556	136,617	158,541
Income tax expense	—	(2,626)	(639)	(607)	(244)
Net profit for the year/period before minority interests	96,412	182,421	217,917	136,010	158,297
Attributable to:					
Equity holders of the Company	98,530	162,680	211,733	132,358	153,274
Minority interests	(2,118)	19,741	6,184	3,652	5,023
	96,412	182,421	217,917	136,010	158,297
Earnings per share (basic)	RMB0.16	RMB0.26	RMB0.33	RMB0.21	RMB0.23
Dividends	—	51,476	119,852	109,343	167,538

BUSINESSES TO BE ACQUIRED BY THE COMPANY

The Company is in the process of acquiring certain equity interests from two joint ventures, namely Siemens Zhuzhou and Shiling. See "History and Development — Businesses to be acquired by the Company" for details.

The table below sets out certain unaudited key financial information of Siemens Zhuzhou prepared under the PRC Enterprise Accounting System ("PRC GAAP") for the three years ended 31 December 2003, 2004 and 2005.

	As at 31 December		
	2003	2004	2005
	(RMB thousands)		
Total assets	82,400	69,473	68,783
Total liabilities	(20,412)	(2,037)	(3,855)
Net assets	61,988	67,436	64,928

	Year ended 31 December		
	2003	2004	2005
	(RMB thousands)		
Turnover	7,140	3,035	2,991
Profit/(loss) before taxation	5,195	5,448	(2,508)
Taxation	—	—	—
Profit/(loss) after taxation	5,195	5,448	(2,508)

The table below sets out certain key financial information of Shiling for the period from 8 April 2005 (date of incorporation) to 31 December 2005.

	As at 31 December 2005
	(RMB thousands)
Total assets	111,371
Total liabilities	(68)
Net assets	111,303

	Period from 8 April 2005 (date of incorporation) to 31 December 2005
	(RMB thousands)
Turnover	—
Loss before taxation	(4,568)
Taxation	—
Loss after taxation	(4,568)

REORGANISATION AND BASIS OF PRESENTATION

The Company was incorporated in the PRC on 26 September 2005 as a joint stock company with limited liability after undergoing the Reorganisation, which was effective as of 30 September 2004. On such effective date, the Parent Company transferred its assets, liabilities and businesses relating to the Relevant Businesses (as defined in "History and Development — Reorganisation") as its capital contribution.

The Group's audited consolidated financial statements for the three years ended 31 December 2005 and the six months ended 30 June 2006, as set forth in Appendix I to this prospectus, have been prepared as if the Relevant Businesses (excluding the Parent Company's 60%, 80%, 40% and 1.67% equity interests in Times Electronics, Times Fittings, Times Monitor and Times PCB that were acquired in September 2004 and Times Electronics' 74.29% equity interest in Zhuzhou Jierui that was acquired in September 2004) were transferred to the Group as at the beginning of the Track Record Period. Before September 2004, the Parent Company owned 30%, 20%, 25.71%, 60% and 98.33% equity interests in Times Electronics, Times Fittings, Zhuzhou Jierui, Times Monitor and Times PCB, respectively . In September 2004, the Parent Company acquired the additional equity interests, changing Times Electronics and Times Fitting from the Parent Company's associates to its subsidiaries, and Times Monitor and Times PCB from the Parent Company's 60% owned and 98.33% owned subsidiaries to its wholly-owned subsidiaries. Also in September 2004, Times Electronics acquired 100% equity interest in Zhuzhou Jierui, changing it from an associate of the Parent Company to a direct wholly-owned subsidiary of Times Electronics and an indirect wholly-owned subsidiary of the Parent Company. As part of the Reorganisation, Times Fittings, Zhuzhou Jierui, Times Monitor and Times PCB were dissolved on 30 September 2004.

The assets, liabilities and businesses of Times Fittings, Times Monitor and Times PCB were transferred to the Company, and those of Zhuzhou Jierui were transferred to Times Electronics. The results of operations of Times Electronics has been consolidated with the results of the Group since 1 October 2004.

In addition, the assets and liabilities that were historically associated with the Relevant Businesses but not transferred into the Company were included in the consolidated accounts of the Group until 30 September 2004, when they were distributed to the Parent Company in the amount of RMB202.5 million. The assets include (i) property, plant and equipment for basic research and development purposes and administration purposes in the amount of RMB154.8 million, (ii) prepayments of RMB0.2 million and non-trade payable balances of RMB26.5 million that were not related and would not relate to the operation of the Relevant Businesses, (iii) inventories of RMB49.5 million that would not be used in the operation of the Group, and (iv) cash balances of RMB24.6 million. The prepayments represented those incurred for the Beijing representative office of ZELRI. The non-trade payable included primarily the fund ZELRI set aside for repair and maintenance of its staff quarters, and temporary receipt from CSR of an amount in connection with the settlement of employees' compensation of a subsidiary of ZELRI outside of the Group. The inventories would be used by the Parent Company in manufacturing of high power converters for industrial applications and for its high power converter technology laboratory.

As a result of the Reorganisation and the basis of presentation described above, the historical financial results for the periods presented are not directly comparable between periods and do not necessarily reflect the Group's financial condition and results of operation in the future or what they would have been had the current group structure been in place since the beginning of the Track Record Period.

MAJOR FACTORS AFFECTING THE RESULTS OF OPERATIONS OF THE GROUP

The Group's results of operations are affected by the following major factors:

PRC Railway Network Expansion

Most of the Group's turnover is derived from sales of train-borne electrical systems and electrical components to customers in the PRC Railway industry. The PRC Railway network has expanded rapidly in the last decade primarily driven by the national economic growth, and has also provided a platform for the Group's business growth. The expanded PRC Railway network demanded production of more new trains and expanded the market for maintenance of trains as well. In addition, the increased length of the railways also entailed a corresponding increase in demand for large railway maintenance vehicles. All these increases in rail vehicles led to the increases in demand for the Group's products. A slowdown in the PRC Railway network expansion may adversely affect the Group's turnover and profit growth rate.

MOR Policies

The PRC Railway industry is highly regulated by the MOR, which is also the biggest end-user of railway products, including the Group's products. The Group's business has historically been affected by the MOR's policies, including among others, its pricing policy, market accession policy, and investment and upgrade policy.

The MOR is responsible for setting prices for PRC Railway products and such practice has to certain extent provided a stable pricing environment for the Group's products and therefore helped the Group to maintain a stable profit margin in the past. If the MOR adopts a more stringent pricing policy, it could adversely affect the Group's turnover and profit.

The MOR's market accession policy directly affects the Group's business. In 2004, the MOR started to acquire foreign technologies and products in order to accelerate the development of PRC Railway transportation, but at the same time set out certain localisation policies relating to procurement and encouraged PRC enterprises to develop proprietary technologies. If the MOR switches to a more liberal or conservative market accession policy, it could have a material effect on the Group's business and results of operations.

The MOR's investment and upgrading decisions have benefited the Group in the past. For example, in late 2005, the MOR required that train operation safety equipment of all trains operating in the PRC be upgraded by substitution of the LKJ-93 type and older types with the LKJ2000 type before the completion of the sixth speed increase of the PRC Railway network. The Group has received substantially increased orders for LKJ2000 type train operation safety equipment since such requirement was announced.

Product Mix

The prices and gross profit margins of the Group's products may vary significantly depending on, among other things, the technology level and supply and demand of the products. For example, on average, the price of train-borne electrical systems manufactured by the Group accounts for a 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 much higher than that of train-borne electrical systems for diesel locomotives. In recent years, electric locomotives have been increasingly replacing diesel locomotives in service. The Group has put a great emphasis on maintaining its technological leading position and has made significant progress in developing electric propulsion technologies. As a result, the Group has been able to benefit from this recent development.

End-user Market

The technologies the Group possesses can be applied in urban rail and a variety of non-railway applications, including mining and chemical engineering. As part of its commercialisation strategy, the Group has made significant progress in marketing and selling its train-borne electrical systems to urban rail markets and its five-inch power semiconductor devices to non-railway markets. The Group has also applied its sensor technologies to the production of vacuum sanitary units. Those efforts have significantly expanded the sources of the Group's turnover. The Group's future growth of turnover will to a significant extent depend on the success of its continuing commercialisation efforts.

PRC Income Taxation

The Company has been exempt from PRC enterprise income tax since its establishment. The Group's subsidiaries are also entitled to reduced enterprise income tax rates. See "— Description of Selected Income Statement Line Items — Income Tax Expense" for more details. The Group may not obtain the same levels of preferential income taxation treatment upon the expiry of the current tax exemptions and preferential treatments, and the Group's results may be adversely affected.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Critical accounting policies are those that require management to exercise judgement and make estimates which yield materially different results if management have to apply different assumptions or make different estimates.

The Group's financial statements have been prepared in accordance with IFRS. The Company's principal accounting policies are set forth in Section 3 to the Accountants' Report, attached as Appendix I of this prospectus. IFRS requires that the Company adopt accounting policies and make estimates that its Directors believe are most appropriate in the circumstances for the purposes of giving a true and fair view of the Group's results and financial condition. The Group's management believe that the most complex and sensitive judgements, because of their significance to the Group's financial statements, relate primarily to the need to make estimates about the effects of markets that are inherently uncertain. Actual results in these areas could differ from the Directors' estimates. The Group's management has identified below the accounting policies that it believes are the most critical to the Group's consolidated financial statements and that involve the most significant estimates and judgements.

Property, plant and equipment

In accounting for property, plant and equipment, the Group must make estimates about the expected useful lives of the assets, the expected residual values of the assets, and the potential for impairment based on the fair value of the assets and the cash flows they generate. The following table sets forth the useful lives of the Group's property, plant and equipment for calculating depreciation of the Group's property, plant and equipment using the straight line method:

Assets	Estimated useful life
Buildings	20 years
Plant, machinery and equipment	10 years
Computer equipment and others	5 years

The Group's management reviews the carrying values of its property, plant and equipment for impairment when events or circumstances indicate the carrying value may not be recoverable. Factors indicating potential impairment include, but are not limited to, significant decreases in the market value of the property, plant and equipment, a significant change in the assets' physical condition and operating or cash flow losses associated with the use of the property, plant and equipment. Impairment losses are recognised in the income statement.

There is inherent uncertainty associated with estimating the future cash flow for purposes of the impairment test. If the actual future cash flow turns out to be different from that as estimated, there is a risk the impairment charges recognised to date may be inaccurate, or further impairment charges may be necessary in future periods.

Allowance for doubtful debts

The Group extends credit to customers and other parties in the normal course of business and maintain an allowance for doubtful debts related to estimated losses resulting from the inability or unwillingness of customers to make required payments. The Group bases such estimates on its historical experience, existing economic conditions and specific customer collection issues. Trade receivables are written off when the Group determines that the balance cannot be collected. While such losses have historically been within the Group's expectations and consistent with the Group's provisioning policies, the Group may not continue to experience the same credit loss rates as during past periods. Circumstances in certain of the industries in which the Group's customers operate may affect their operating performance and cash flows, which in turn may affect the Group's ability to collect its accounts receivable. The changing financial condition of specific customers and additional information regarding the credit quality of the Group's accounts receivable, and/or adjustments to the allowance for doubtful debts may be required.

Allowance for doubtful debts on trade and other receivables charged to the income statement was RMB817,000, RMB2,596,000, RMB4,318,000 and RMB7,482,000, respectively, for the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006.

Allowance for inventory

Inventories are valued at the lower of cost and net realisable value. Cost incurred in bringing each product to its present location and condition is accounted for as follows:

Raw materials	—	purchase cost on a weighted average basis
Finished goods and work in progress	—	cost equals direct material and labour and a proportion of manufacturing overheads.

Allowances are provided by a general provision on inventory ageing and obsolete inventories based on specific identification, taking into account future demand and market conditions.

Provision for obsolete inventories of RMB3,645,000, RMB12,352,000, RMB11,883,000 and RMB5,552,000, respectively, was charged to the income statement for the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006.

Product warranties

Provisions for estimated expenses related to product warranties are made at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claims. Management actively studies trends of warranty claims and takes action to improve quality and minimise warranty claims. Management believes that the warranty reserves levels are appropriate; however, actual claims incurred could differ from the original estimates, requiring adjustments to the reserves.

DESCRIPTION OF SELECTED INCOME STATEMENT LINE ITEMS

Turnover

The Group's turnover represents the net invoice value of goods sold, after trade discounts and allowance for returns. Turnover from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer.

The Group's turnover comprises sales of train-borne electrical systems and electrical components. The following table sets forth a breakdown of the Group's turnover by products for the periods indicated:

	Year ended 31 December						Six-month period ended 30 June			
	2003		2004		2005		2005		2006	
							(unaudited)			
	(RMB millions)	*% of Total Turnover*	*(RMB millions)*	*% of Total Turnover*	*(RMB millions)*	*% of Total Turnover*	*(RMB millions)*	*% of Total Turnover*	*(RMB millions)*	*% of Total Turnover*
Train power converters, auxiliary power supply equipment and control systems	377.5	57.3%	371.8	47.2%	359.6	36.1%	292.4	54.0%	265.6	41.9%
Train operation safety equipment	118.1	17.9%	190.9	24.3%	272.5	27.3%	68.4	12.6%	179.9	28.4%
Electrical control systems for large railway maintenance vehicles	0	0%	44.5	5.6%	148.9	14.9%	77.8	14.4%	83.5	13.2%
Train-borne Electrical Systems	495.6	75.2%	607.2	77.1%	781.0	78.3%	438.6	81.0%	529.0	83.5%
Power semiconductor devices	70.0	10.6%	79.1	10.0%	90.1	9.0%	49.7	9.2%	49.5	7.7%
Sensors and related products	56.5	8.6%	61.5	7.8%	57.0	5.7%	30.5	5.6%	29.6	4.7%
Others	36.7	5.6%	40.0	5.1%	69.9	7.0%	22.6	4.2%	25.8	4.1%
Electrical Components	163.2	24.8%	180.6	22.9%	217.0	21.7%	102.8	19.0%	104.9	16.5%
Total turnover	658.8	100%	787.8	100%	998.0	100%	541.4	100%	633.9	100%

The following table sets forth the breakdown of the Group's turnover by domestic sales and exports for the periods indicated:

	Year ended 31 December						Six-month period ended 30 June			
	2003		**2004**		**2005**		**2005**		**2006**	
							(unaudited)			
	(RMB millions)	*% of Total Turnover*	*(RMB millions)*	*% of Total Turnover*	*(RMB millions)*	*% of Total Turnover*	*(RMB millions)*	*% of Total Turnover*	*(RMB millions)*	*% of Total Turnover*
Domestic sales	607.7	92.2%	731.0	92.8%	949.8	95.2%	502.5	92.8%	612.5	96.6%
Exports	51.1	7.8%	56.8	7.2%	48.2	4.8%	38.9	7.2%	21.4	3.4%
Total turnover	658.8	100%	787.8	100%	998.0	100%	541.4	100%	633.9	100%

Cost of sales

The Group's cost of sales consists primarily of costs of raw materials, production related staff costs and depreciation. Raw materials are the largest component of the Group's cost of sales, representing approximately 84.0%, 82.1%, 82.2% and 85.4% of the Group's total cost of sales for the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, respectively. Staff costs, when included in any income statement line item, include salaries, bonuses, contribution to pension schemes and welfare expenses.

Other revenues and gains

The Group's other revenues and gains consist primarily of interest income, value-added tax refunds, profit from sales of raw materials and exchange gains. In addition, the Group recorded an aggregate gain of RMB51.5 million in 2004 in connection with the Parent Company's acquisition of additional equity interests in Times Electronics, Times Monitor and Times PCB and Times Electronics' acquisition of equity interest in Zhuzhou Jierui in September 2004. RMB46.8 million represented the excess of the net fair value of Times Electronics' and Zhuzhou Jierui's identifiable assets, liabilities and contingent liabilities over the Parent Company's and Times Electronics' cost of acquisition. RMB4.7 million represented the excess of the Parent Company's additional interests in the carrying value of the acquirees' net assets over the cost of the Parent Company's acquisition of additional interests in Times Monitor and Times PCB. The consideration the Parent Company paid for the acquisitions was negotiated between the Parent Company and the shareholders of those companies with reference to asset valuation reports issued by PRC valuers. During the six months ended 30 June 2006, in connection with the Company's acquisition of a 10% additional equity interest in Times Electronics, the Company recorded a gain of RMB7.4 million, representing the excess of the Company's additional interests in the carrying value of the acquiree's net assets over the cost of acquisition of the additional interests. The consideration for the 10% additional equity interest was negotiated between the Company and Times Investment.

Selling and distribution costs

The Group's selling and distribution costs consist primarily of staff costs for the sales staff, warranty expenses (including travelling costs, customer service centre maintenance costs and other costs relating to customers' warranty claims), transportation expenses and various marketing expenses. The Group's selling and distribution activities are mainly conducted by its internal sales staff.

Administrative expenses

The Group's administrative expenses include staff costs for administrative staff, research and development expenses (including staff costs, depreciation, amortisation and other costs), depreciation of administration related assets, entertainment expenses, bad debt provision and other miscellaneous expenses related to administration. Research and development expenses inclusive of related staff cost, depreciation and amortisation amounted to RMB57.8 million, RMB57.7 million, RMB52.4 million and RMB43.3 million for the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, respectively, representing 37.1%, 35.7%, 33.9% and 40.7% of the Group's administrative expenses for the same periods.

Finance Costs

The Group's finance costs consist of interest paid on the Group's bank loans and other loans. The annual interest rates of the Group's bank loans ranged from 2.04% to 5.31% for the year ended 31 December 2003, from 2.40% to 5.58% for the year ended 31 December 2004, from 4.19% to 6.19% for the year ended 31 December 2005, and from 3.83% to 6.69% for the six months ended 30 June 2006. The Group's borrowings increased from 2003 to 2005 to meet its capital expenditure and working capital needs, including the consideration of RMB56.0 million in connection with the acquisition of equity interests in Times Electronics, Times Monitor, Times PCB and Zhuzhou Jierui.

Share of profit of associates

An associate is an entity, not being a subsidiary or jointly controlled entity, in which the Group has significant influence. The Group's share of profit of an associate is the profit attributable to the Group corresponding to its equity interest in such associate.

The Group had five associates before September 2004, namely, Times Electronics, Times Fittings, Zhuzhou Jierui, Times Guangchuang and Zhuzhou Times Hi-Technology Property Management Co., Ltd. Times Electronics, Times Fittings and Zhuzhou Jierui became the Group's subsidiaries when the Parent Company and Times Electronics acquired equity interest in each of them in September 2004. In connection with Times Electronics' change from an associate to a 90% owned subsidiary of the Group, Times Guangchuang, a 70% owned subsidiary of Times Electronics, also became the Group's indirect subsidiary. Zhuzhou Times Hi-Technology Property Management Co., Ltd. remained the Group's associate after September 2004.

The Group's share of profit of Zhuzhou Times Hi-Technology Property Management Co., Ltd. was not substantial during the Track Record Period.

Income Tax Expense

Pursuant to PRC law, the maximum rate of enterprise income tax chargeable to companies in China is 33%. However, the Company and other members of the Group enjoyed certain preferential tax treatment and their effective tax rates were therefore lower than 33%.

Pursuant to the approval of relevant tax authorities, the Parent Company, as an enterprise transformed from a scientific research entity, is exempt from PRC enterprise income tax from 1 October 2000 to 30 September 2007. Therefore no PRC enterprise income tax was levied on the Parent Company before the Company was formed on 26 September 2005. Pursuant to the Notice on the Extension of the Implementation Period of Tax Policy in respect of Transformed Scientific Research Entities (關於延長轉制科研機構有關稅收政策執行期限的通知) (Cai Shui [2005] No.14) (the "**Extension Notice**") issued by the MOF and the State Administration of Taxation and the approvals of Zhuzhou Municipal Office of State Taxation Bureau and Shifeng District Office of State Taxation Bureau, the Company is exempt from PRC enterprise income tax until 30 September 2007.

Times Monitor and Times PCB, as the Parent Company's subsidiaries, were entitled to the same tax preferential treatment as the Parent Company pursuant to the Supplementary Notice on the Tax Policy Issues relating to Transformed Scientific Research Entities (關於轉制科研機構享受企業所得稅優惠政策問題的補充通知) (Guo Shui Fa (2002) No. 36) (the "Supplementary Notice"). Therefore, Times Monitor and Times PCB were both exempt from PRC enterprise income tax in 2003 and 2004 before they were dissolved.

Times Electronics and Times Guangchuang are both located in Zhuzhou Hi-technology Development Zone. Pursuant to the Notice on Certain Preferential Tax Policies on Enterprise Income Tax (關於企業所得稅若干優惠政策的通知) (Cai Shui [1994] No.1), Times Electronics and Times Guangchuang are entitled to a reduced PRC enterprise income tax rate of 15% if not qualified for more preferential treatment. Times Electronics was subject to a further reduced enterprise income tax rate of 10% in 2004 pursuant to the Notice on the Taxation Policy Issues relating to Encouraging the Development of Software Industry and Integrated Circuit Industry (關於鼓勵軟件產業和集成電路產業發展有關稅收政策問題的通知) (Cai Shui [2000] No.25) (the "Software and IC Industries Tax Policy Notice") issued by the MOF, the State Administration of Taxation and the PRC General Administration of Customs because it was designated as a key software production enterprise within the state planned deployments by NDRC, the Ministry of Information Industry of the PRC, the Ministry of Commerce of the PRC and the State Administrations of Taxation in that year. Pursuant to the Extension Note and the approvals of Zhuzhou City, Tianyuan District Office of State Taxation Bureau, commencing from 1 April 2005, Times Electronics is exempt from PRC enterprise income tax until 30 September 2007. Times Guangchuang has been designated as a software development enterprise in 2004 and 2005 by the Information Industry Department of Hunan Province and is therefore entitled to a reduced enterprise income tax rate of 7.5% for three years starting from 1 January 2004 pursuant to the Software and IC Industries Tax Policy Notice.

Ningbo Company, as a scientific research enterprise, was exempt from PRC enterprise income tax from 2002 to 2005 pursuant to (i) the Notice of Release on the Transformation Plans of 134 Research Institutes of 11 Departments including the Ministry of Construction (關於印發建設部等11個部門(單位)所屬134個科研機構轉制方案的通知) (Guo Ke Fa Zheng Zi [2000] No. 300) issued by six governmental departments including the MOST and the State Administration of Taxation, (ii) the Supplementary Notice and (iii) relevant approvals of Ningbo City Office of State Taxation Bureau. In addition, pursuant to the Extension Notice and the approval of Ningbo City, Jiangbei District Office of State Taxation Bureau, Ningbo Company is also exempt from PRC enterprise income tax for 2006 and 2007.

Times Electric US was incorporated in Pennsylvania, USA, on 4 November 2005 and did not incur any tax liability in 2005. It is, however, expected to be subject to US corporate income tax commencing from 1 January 2006.

Minority Interests

Minority interests represent the interest of outside shareholders in the results of the Group's subsidiaries that the Group does not wholly own. In order to determine the Group's profit attributable to shareholders of the Company, minority interests are deducted from the profit for the year or period when the relevant entity has a profit, or added to the profit for the year or period when the relevant entity has a loss.

Minority interests comprised primarily the interest of outside shareholders of Times Monitor before 1 October 2004, and of Times Electronics and Times Guangchuang starting from 1 October 2004. Times Monitor was a 60% owned subsidiary of the Parent Company before it became a wholly- owned subsidiary and was dissolved in September 2004 with its business, assets and liabilities transferred to the Company as part of the Reorganisation.

RESULTS OF OPERATIONS

Six-month period ended 30 June 2006 compared to the six-month period ended 30 June 2005

Turnover. Turnover increased 17.1% from RMB541.4 million for the six-month period ended 30 June 2005 to RMB633.9 million for the six-month period ended 30 June 2006. This increase in turnover was primarily due to an increase in sales of train operation safety equipment. The increase was principally the result of a policy released by the MOR in late 2005 that LKJ2000 type train operation safety equipment was to be installed on all trains operating on all PRC Railway lines.

Cost of sales. Cost of sales increased 13.8% from RMB286.8 million for the six-month period ended 30 June 2005 to RMB326.5 million for the six-month period ended 30 June 2006. The increase in cost of sales was primarily due to the increase in costs of raw materials commensurate with the Group's turnover growth.

Gross profit. As a result of the foregoing, the Group's gross profit increased 20.8% from RMB254.5 million for the six-month period ended 30 June 2005 to RMB307.5 million for six-month period ended 30 June 2006. The Group's gross profit margin was 47.0% for the six-month period ended 30 June 2005 and 48.5% for six-month period ended 30 June 2006.

Other revenue and gains. Other revenue and gains increased from RMB9.2 million for the six-month period ended 30 June 2005 to RMB21.5 million for the six-month period ended 30 June 2006. This increase in other revenue and gains was primarily due to a RMB5.3 million increase in value-added tax refund and a RMB7.4 million gain the Group recorded in 2006 in connection with the Company's acquisition of an additional 10% equity interest in Times Electronics at a consideration of less than the carrying value of Times Electronics' net assets.

Selling and distribution costs. Selling and distribution costs increased 15.5% from RMB48.9 million for the six-month period ended 30 June 2005 to RMB56.5 million for the six-month period ended 30 June 2006. This increase in selling and distribution costs was primarily due to the general growth of the Group's business.

Administrative expenses. Administrative expenses increased 47.8% from RMB71.9 million for the six-month period ended 30 June 2005 to RMB106.3 million for the six-month period ended 30 June 2006. This increase in administrative expenses was primarily due to an increase in research and development expenses relating to the Group's efforts to further penetrate the PRC urban rail market and to develop domestic proprietary technologies.

Operating profit. As a result of the foregoing, the Group's operating profit increased 16.0% from RMB143.0 million for the six-month period ended 30 June 2005 to RMB165.9 million for the six-month period ended 30 June 2006. The Group's operating profit margin was 26.4% for the six-month period ended 30 June 2005 and 26.2% for the six-month period ended 30 June 2006.

Finance costs. Finance costs increased 15.9% from RMB6.3 million for the six-month period ended 30 June 2005 to RMB7.3 million for the six-month period ended 30 June 2006.

Profit before tax. As a result of the foregoing, the Group's profit before tax increased 16.0% from RMB136.6 million for the six-month period ended 30 June 2005 to RMB158.5 million for the six-month period ended 30 June 2006.

Income tax expense. The Group's income tax expense decreased from RMB0.6 million for the six-month period ended 30 June 2005 to RMB0.2 million for the six-month period ended 30 June 2006. Income tax was recognised by Times Electronics for the three-month period ended 31 March 2005 and Times Guangchuang for the six-month period ended 30 June 2005, and by Times Guangchuang only for the six-month period ended 30 June 2006. The Group's effective tax rate was 0.4% for the six-month period ended 30 June 2005 and 0.2% for the six-month period ended 30 June 2006.

Net profit for the period. The Group's net profit for the period increased 16.4% from RMB136.0 million for the six-month period ended 30 June 2005 to RMB158.3 million for the six-month period ended 30 June 2006. The Group's net profit margin was 25.1% for the six-month period ended 30 June 2005 and 25.0% for the six-month period ended 30 June 2006.

Minority Interests. Minority interests increased 35.1% from RMB3.7 million for the six-month period ended 30 June 2005 to RMB5.0 million for the six-month period ended 30 June 2006, due to the increases in profits of Times Electronics and Times Guangchuang, although offset in part due to the Group's acquisition of an additional 10% interest in Times Electronics in June 2006.

Year ended 31 December 2005 compared to the year ended 31 December 2004

Turnover. Turnover increased 26.7% from RMB787.8 million for the year ended 31 December 2004 to RMB998.0 million for the year ended 31 December 2005. This increase in turnover was primarily due to an increase in sales of electrical control systems for large railway maintenance vehicles and train operation safety equipment, despite a decrease in sales of train power converters, auxiliary power supply equipment and control systems.

The increase in sales of electrical control systems for large railway maintenance vehicles was primarily due to the fact that Times Electronics' results of operations were only consolidated with the Group's results for the last three months of the year ended 31 December 2004. The increase in sales of train operation safety equipment was primarily due to the increase in orders for LKJ2000 type train operation safety equipment and wireless transmission devices, which are ancillary devices to the LKJ2000 type train operation safety equipment. Both increases were primarily driven by MOR policies. In March 2004, the MOR required that LKJ2000 type train operation safety equipment was to be installed on all passenger trains operating on PRC Railway main lines. In late 2005, the MOR further required that LKJ2000 type train operation safety equipment was to be installed on all trains operating on all PRC Railway lines. With respect to wireless transmission devices systems, in March 2004, the MOR mandated that they must be installed on all passenger trains operating on PRC Railway main lines. The decrease in sales of train power converters, auxiliary power supply equipment and control systems was primarily due to the decrease of the MOR's orders for locomotives in 2005 as compared to 2004. The MOR reduced its orders for locomotives in 2005, but substantially increased its orders for freight cars in order to improve the railway transportation of coal and oil.

Cost of sales. Cost of sales increased 16.7% from RMB464.7 million for the year ended 31 December 2004 to RMB542.3 million for the year ended 31 December 2005. This increase in cost of sales was primarily attributable to the increase in costs of raw materials due to the growth of the Group's sales, which was partially offset by a decrease in raw material unit prices. The Group was able to obtain reductions in the unit prices of certain raw materials from certain suppliers by agreeing to strict compliance with payment terms.

Gross profit. As a result of the foregoing, the Group's gross profit increased 41.0% from RMB323.1 million for the year ended 31 December 2004 to RMB455.7 million for the year ended 31 December 2005. The Group's gross profit margin increased from 41.0% for the year ended 31 December 2004 to 45.7% for the year ended 31 December 2005. The increase was primarily due to the decrease in raw material unit prices.

Other revenues and gains. The Group's other revenues and gains decreased from RMB86.1 million for the year ended 31 December 2004 to RMB18.5 million for the year ended 31 December 2005. This decrease in other revenues and gains was primarily due to a RMB51.5 million gain the Group recorded in 2004 in connection with the Parent Company's acquisition of equity interests in Times Electronics, Times Monitor and Times PCB, Times Electronics' acquisition of an equity interest in Zhuzhou Jierui and an one time gain of RMB19.0 million in 2004 as a result of disposing of certain inventories that had been written off in 2001. In 2001, certain outdated inventories were written off with the approvals of SASAC and CSR. In 2004, those inventories were upgraded with new technology and disposed of with a gain of RMB19.0 million net of upgrading cost.

Selling and distribution cost. The Group's selling and distribution cost increased 48.2% from RMB58.9 million, 7.5% of the annual turnover, for the year ended 31 December 2004 to RMB87.3 million, 8.7% of the annual turnover, for the year ended 31 December 2005. Such increase was primarily due to the increases in staff costs and warranty expenses. A primary contributing factor to the increase in staff costs was that the Group recategorised the management staff of its overseas business unit, urban rail business unit and marketing and sales center as selling and distribution staff in 2005. The total staff costs for those management staff were RMB4.6 million in 2004. The Group's warranty expenses increased primarily in line with the increase in the Group's turnover.

Administrative expenses. The Group's administrative expenses decreased 4.3% from RMB161.7 million for the year ended 31 December 2004 to RMB154.8 million for the year ended 31 December 2005. Such decrease was primarily due to the recategorisation of certain management staff as selling and distribution staff in 2005, although only three months' results of Times Electronics were consolidated with the Group's results in 2004.

Operating profit. As a result of the foregoing, the Group's operating profit increased 23.9% from RMB187.6 million for the year ended 31 December 2004 to RMB232.4 million for the year ended 31 December 2005. The Group's operating profit margin was 23.8% for the year ended 31 December 2004 and 23.3% for the year ended 31 December 2005.

Finance Costs. Finance costs increased 27.8% from RMB10.8 million for the year ended 31 December 2004 to RMB13.8 million for the year ended 31 December 2005. This increase in finance costs was primarily due to an increase in the Group's borrowings and a general increase of interest rates from 2004 to 2005. The annual interest rates of the Group's bank loan ranged from 4.19% to 6.19% for the year ended 31 December 2005, as compared to 2.40% to 5.58% for the year ended 31 December 2004.

Share of profit of associates. Share of profit of associates decreased from RMB8.3 million for the year ended 31 December 2004 to zero for the year ended 31 December 2005. This was due to the fact that Times Electronics, Times Fittings, Zhuzhou Jierui and Times Guangchuang, which had previously been the Group's associates, became the Group's subsidiaries in September 2004.

Profit before tax. As a result of the foregoing, the Group's profit before tax increased 18.2% from RMB185.0 million for the year ended 31 December 2004 to RMB218.6 million for the year ended 31 December 2005.

Income tax expense. The Group's income tax expense decreased from RMB2.6 million for the year ended 31 December 2004 to RMB0.6 million for the year ended 31 December 2005. The income tax expense in both years was primarily attributable to Times Electronics and the decrease was primarily due to the seasonality of Times Electronics' business. Times Electronics' income tax expense was included in the Group's income statements for only three months in both 2004 and 2005, as it became the Group's subsidiary in September 2004 and was exempt from PRC enterprise income tax commencing from 1 April 2005. Times Electronics generally experience its peak sales season in the last quarter of a year and a slower sales season in the first quarter of a year, primarily due to the MOR's purchase pattern and the Chinese new year holiday. The Group's effective tax rate was 1.4% for the year ended 31 December 2004 and 0.3% for the year ended 31 December 2005.

Net profit for the year. The Group's net profit for the year increased 19.5% from RMB182.4 million for the year ended 31 December 2004 to RMB217.9 million for the year ended 31 December 2005. The Group's net profit margin was 23.2% for the year ended 31 December 2004 and 21.8% for the year ended 31 December 2005.

Minority Interests. Minority interests decreased from RMB19.7 million for the year ended 31 December 2004 to RMB6.2 million for the year ended 31 December 2005, primarily due to the fact the Group owned only a 60% equity interest in Times Monitor before Times Monitor became a wholly owned business unit of the Group in September 2004, although the decrease was partially offset by Times Electronics becoming a 90% owned subsidiary of the Group (with a 10% minority interest) in September 2004, after having been previously a 30% owned associate.

Year ended 31 December 2004 compared to the year ended 31 December 2003

Turnover. Revenue increased 19.6% from RMB658.8 million for the year ended 31 December 2003 to RMB787.8 million for the year ended 31 December 2004. This increase in turnover was primarily due to an increase in sales of train operation safety equipment and electrical control systems for large railway maintenance vehicles, despite a decrease in sales of train power converters, auxiliary power supply equipment and control systems. The increase in sales of train operation safety equipment was primarily due to an increase in orders for LKJ2000 type train operation safety equipment. The increase in sales of electrical control systems for large railway maintenance vehicles was primarily due to the fact that Times Electronics' results were not included in the Group's consolidated accounts in 2003, but were consolidated with the Group's results of operations for the last three months of 2004. The decrease in sales of train power converters, auxiliary power supply equipment and control systems was primarily due to the decrease of the MOR's orders for locomotives in 2004 as compared to 2003. The MOR reduced its orders for locomotives in 2004, but substantially increased its orders for passenger cars to satisfy the increasing demand for passenger cars in connection with the fifth train speed increase that started in 2004.

Cost of sales. Cost of sales increased 19.6% from RMB388.4 million for the year ended 31 December 2003 to RMB464.7 million for the year ended 31 December 2004. This increase in cost of sales was primarily attributable to the increase in costs of raw materials, which was primarily due to the growth of the Group's sales. The increase was also due to the fact that Times Electronics' cost of sales was not included in the Group's accounts in 2003, but was consolidated with the Group's results of operations for the last three months of 2004.

Gross profit. As a result of the foregoing, the Group's gross profit increased 19.5% from RMB270.4 million for the year ended 31 December 2003 to RMB323.1 million for the year ended 31 December 2004. The Group's gross profit margin was 41.0% for the year ended 31 December 2003 and 41.0% for the year ended 31 December 2004.

Other revenues and gains. The Group's other revenues and gains increased from RMB14.4 million for the year ended 31 December 2003 to RMB86.1 million for the year ended 31 December 2004. This increase in other revenues and gains was primarily due to a RMB51.5 million gain the Group recorded in 2004 in connection with the Parent Company's acquisition of equity interests in Times Electronics, Times Monitor and Times PCB, Times Electronics' acquisition of an equity interest in Zhuzhou Jierui and a one time gain of RMB19.0 million from disposal of certain inventories.

Selling and distribution cost. The Group's selling and distribution cost increased 40.9% from RMB41.8 million, 6.3% of the annual turnover, for the year ended 31 December 2003 to RMB58.9 million, 7.5% of the annual turnover, for the year ended 31 December 2004. Such increase was primarily due to the increase in the Group's warranty expenses and other expenses, which was primarily attributable to the increase in the Group's turnover and the fifth train speed increase that started in 2004, which demanded more maintenance work from the Group.

Administrative expenses. The Group's administrative expenses increased 3.9% from RMB155.6 million for the year ended 31 December 2003 to RMB161.7 million for the year ended 31 December 2004. This increase in administrative expenses was primarily due to the general growth of the Group's business.

Operating profit. As a result of the foregoing, the Group's operating profit increased 116.6% from RMB86.6 million for the year ended 31 December 2003 to RMB187.6 million for the year ended 31 December 2004. The Group's operating profit margin was 13.1% for the year ended 31 December 2003 and 23.8% for the year ended 31 December 2004. The increase was primarily due to the increase in other revenues and gains in 2004.

Finance Costs. Finance costs increased 33.3% from RMB8.1 million for the year ended 31 December 2003 to RMB10.8 million for the year ended 31 December 2004. This increase in finance costs was primarily due to an increase in the Group's borrowings.

Share of profit of associates. Share of profit of associates decreased from RMB17.9 million for the year ended 31 December 2003 to RMB8.3 million for the year ended 31 December 2004. This was primarily due to the fact that Times Fittings, Times Electronics, Zhuzhou Jierui and Times Guangchuang were the Group's associates for the whole year in 2003 and for only the first nine months in 2004 before they became the Group's subsidiaries.

Profit before tax. As a result of the foregoing, the Group's profit before tax increased 91.9% from RMB96.4 million for the year ended 31 December 2003 to RMB185.0 million for the year ended 31 December 2004.

Income tax expense. The Group's income tax expense increased from zero for the year ended 31 December 2003 to RMB2.6 million for the year ended 31 December 2004. This increase was primarily due to the income tax paid by Times Electronics in the last three months of 2004 when it was the Group's subsidiary. The Group's effective tax rate was zero for the year ended 31 December 2003 and 1.4% for the year ended 31 December 2004.

Net profit for the year. The Group's net profit for the year increased 89.2% from RMB96.4 million for the year ended 31 December 2003 to RMB182.4 million for the year ended 31 December 2004. The Group's net profit margin was 14.6% for the year ended 31 December 2003 and 23.2% for the year ended 31 December 2004.

Minority Interests. Minority interests increased from a share of loss of RMB2.1 million for the year ended 31 December 2003 to a share of profit of RMB19.7 million for the year ended 31 December 2004, primarily attributable to Times Monitor's results. Times Monitor was formed in July 2003 and sustained a loss in 2003, as opposed to 2004, when it commenced full operations and generated a profit during the nine month period before becoming a wholly-owned subsidiary of the Group.

LIQUIDITY AND CAPITAL RESOURCES

Cash flows and working capital

To date, the Group has primarily financed its working capital needs with cash generated from operations and short-term loans. The following table sets forth the Group's cash flows with respect to operating activities, investing activities and financing activities for the three years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006, as extracted from the Accountants' Report, which is set forth in Appendix I to this prospectus.

	Year ended 31 December			Six-month period ended 30 June
	2003	**2004**	**2005**	**2006**
	(RMB thousands)			
Net cash generated from/(used in) operations	(9,533)	141,705	53,831	123,569
Net cash outflow from investing activities	(89,800)	(84,446)	(113,511)	(81,610)
Net cash inflow/(outflow) from financing activities	40,187	30,531	53,522	(89,590)
Net increase/(decrease) in cash and cash equivalents	(59,146)	87,790	(6,158)	(47,631)
Cash and cash equivalents at beginning of year/period	142,640	83,494	171,284	165,126
Cash and cash equivalents at end of the year/period	83,494	171,284	165,126	117,495

Net cash generated from/used in operations. For the six-month period ended 30 June 2006, the Group's net cash generated from operations was approximately RMB123.6 million, consisting of profit from operating activities before tax and minority interests of RMB158.5 million, increased by an increase in trade payables, notes payable, other payables and accruals of RMB10.0 million and depreciation of items of property, plant and equipment of RMB15.8 million, offset partially by an increase in inventories of RMB68.8 million. The increase in trade payables, notes payable, other payables and accruals was primarily due to the increase of the Group's purchase of raw materials as a result of the growth of its business. The increase in inventories was primarily due to the growth of the Group's business, especially the sharp increase in orders for train operation safety equipment. In addition, the increase in trade receivables, notes receivable, prepayments, deposits and other receivables was RMB7.5 million, which included the effect of the reduction of the Group's receivables from ZELRI in the amount of RMB171.3 million. The reduction offset the Group's distribution of dividends to ZELRI in the same amount.

For the year ended 31 December 2005, the Group's net cash generated from operations was RMB53.8 million, consisting of profit from operating activities before tax and minority interests of RMB 218.6 million, decreased primarily by an increase in trade receivables, notes receivable, prepayments, deposits and other receivables of RMB92.2 million, a decrease in trade payables, notes payable, other payables and accruals of RMB57.1 million, and an increase in inventories of RMB53.2 million, offset in part by depreciation of items of property, plant and equipment of RMB25.3 million. The increase in trade receivables, notes receivable and prepayments, deposits and other receivables was primarily due to the Group's payment of equity contributions to Shiling and ZELC for the Parent Company. The decrease in trade payables, notes payable, other payables and accruals was primarily because the Group agreed to strict compliance with payment terms with certain suppliers in exchange for reductions in raw material unit prices. Inventories increased primarily due to the Group's general growth of business.

For the year ended 31 December 2004, the Group's net cash generated from operations was RMB141.7 million, consisting of profit from operating activities before tax and minority interests of RMB 185.0 million, decreased primarily by an increase in trade receivables, notes receivable, prepayments, deposits and other receivables of RMB11.9 million, a decrease in trade payables, notes payable, other payables and accruals of RMB19.7 million, and an aggregate gain of RMB51.5 million recorded in connection with the Company's acquisition of equity interests in Times Electronics, Times Monitor and Times PCB and Times Electronics' acquisition of its equity interest in Zhuzhou Jierui, partially offset by depreciation of items of property, plant and equipment of RMB31.3 million.

For the year ended 31 December 2003, the Group's net cash used in operations was RMB9.5 million, consisting of profit from operating activities before tax and minority interests of RMB 96.4 million, decreased primarily by an increase in trade receivables, notes receivable, prepayments, deposits and other receivables of RMB82.5 million, an increase in inventories of RMB80.1 million, and share of profit of associates of RMB17.9 million, offset in part by depreciation of items of property, plant and equipment of RMB30.0 million and by an increase in trade payables, notes payable, other payables and accruals of RMB39.8 million. The increase in inventories was primarily due to the procurement of raw materials that were distributed to and retained by the Parent Company for manufacture of high power converters for industrial applications and for its high power converter technology laboratory.

Net cash outflow from investing activities. For the six-month period ended 30 June 2006, the Group's net cash outflow from investing activities was approximately RMB81.6 million, consisting primarily of purchase of items of property, plant and equipment of RMB40.3 million, additions to lease prepayments (for acquisition of land use rights) of RMB11.5 million and additional investment in subsidiaries of RMB9.2 million (for acquisition of a 10% additional interest in Times Electronics).

For the year ended 31 December 2005, the Group's net cash outflow from investing activities was RMB113.5 million, consisting primarily of purchases of items of property, plant and equipment of RMB100.4 million (including spending for the construction of the Company's new office building and new production lines for electrical control systems for large railway maintenance vehicles and passenger car electrical systems), and acquisition of subsidiaries of RMB17.0 million, partially offset by interest received of RMB1.2 million and proceeds from disposals of items of property, plant and equipment of RMB3.7 million.

For the year ended 31 December 2004, the Group's net cash outflow from investing activities was RMB84.4 million, consisting primarily of purchases of items of property, plant and equipment of RMB63.5 million, addition to lease prepayments of RMB12.7 million (for acquisition of land use rights), acquisition of subsidiaries of RMB9.4 million, offset in part by proceeds from disposals of items of property, plant and equipment of RMB12.8 million, interest received of RMB2.3 million and dividends received from associates of RMB2.5 million.

For the year ended 31 December 2003, the Group's net cash outflow from investing activities was RMB89.8 million, consisting primarily of purchases of items of property, plant and equipment of RMB84.4 million, and additions to intangible assets of RMB12.5 million, partially offset by proceeds from disposals of items of property, plant and equipment of RMB4.8 million and interest received of RMB3.3 million.

Net cash inflow/outflow from financing activities. For the six-month period ended 30 June 2006, the Group's net cash outflow from financing activities was approximately RMB89.6 million, consisting primarily of repayment of borrowings of RMB269.5 million and dividends paid to minority shareholders of RMB8.1 million (for dividends declared by Times Electronics in 2005), partially offset by proceeds from borrowings of RMB188.1 million.

For the year ended 31 December 2005, the Group's net cash inflow from financing activities was RMB53.5 million, consisting primarily of proceeds from borrowings of RMB294.5 million and contributions from equity owners of RMB39.8 million (capital contributions of four Promoters), offset by repayments of borrowings of RMB280.5 million.

For the year ended 31 December 2004, the Group's net cash inflow from financing activities was RMB30.5 million, consisting primarily of proceeds from borrowings of RMB260.4 million, offset by repayments of borrowings of RMB203.7 million, cash distributions to ZELRI of RMB24.6 million and dividends paid to minority shareholders of RMB1.6 million.

For the year ended 31 December 2003, the Group's net cash inflow from financing activities was RMB40.2 million, consisting primarily of proceeds from borrowings of RMB207.8 million and capital contributions by minority shareholders of RMB8.0 million (representing capital contributions from minority shareholders of Times Monitor during its establishment), offset by repayments of borrowings of RMB175.6 million.

Cash flow management

The Group settles its raw materials purchases primarily with banker's acceptance drafts, the designated payment dates of which are generally about six months after the issue date. Such settlement method has in effect delayed the Group's cash payment for its raw materials.

In addition, the Group maintains adequate borrowing capacity to satisfy its payment obligations when it is short of cash. As at 30 June 2006, the Group had aggregate banking facilities of RMB800 million, approximately RMB507 million of which was unused.

Receivables and payables

Trade and notes receivable

The Group's trade and notes receivable has increased from RMB374.8 million as at 31 December 2003 to RMB534.7 million as at 31 December 2004, RMB568.5 million as at 31 December 2005 and further increased to RMB691.6 million as at 30 June 2006. The increase in trade and notes receivable was in line with the Group's business growth. In addition, the increase from 2003 to 2004 was to a significant extent due to the fact that the trade and notes receivables of Times Electronics, Times Fittings, Zhuzhou Jierui and Times Guangchuang were consolidated with the Group's accounts in 2004. The sharp increase from 31 December 2005 to 30 June 2006 was also due to the fact that the Group generally receives substantial funds in settlement of receivable balances at or around the end of the year. Set out below is an ageing analysis of the Group's trade and notes receivables at the dates indicated:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	(RMB thousands)			
Within 1 year	369,503	520,546	539,236	665,818
Over 1 year but within 2 years	8,435	21,749	30,485	25,737
Over 2 years but within 3 years	6,568	4,406	12,111	18,109
Over 3 years	4,048	7,557	4,920	7,701
	388,554	554,258	586,752	717,365
Less: Provision for impairment of receivables	(13,714)	(19,593)	(18,296)	(25,778)
	374,840	534,665	568,456	691,587

As at 30 September 2006, the Group received payment of RMB366.9 million of its trade and notes receivable of RMB691.6 million as at 30 June 2006.

	Year ended 31 December			Six-month period ended 30 June
	2003	**2004**	**2005**	**2006**
Trade and notes receivable turnover days(1)	178	211	202	181

Note:

(1) The calculation of trade and notes receivable turnover days is based on the average of the opening balance and the closing balance of trade and notes receivable divided by turnover multiplied by 365 days for a year/182.5 days for six months, as the case may be.

The Group generally stipulates payment upon delivery in sales contracts entered into with its customers. With respect to small, new or short-term customers, the Group normally strictly enforces such payment provision and settles payment before or upon delivery of goods or services. The Group, however, does not strictly enforce such payment provision against the MOR and its local railway administrations, the rail vehicle manufacturers and certain long-term customers in light of their funding sources and well-established credit history with the Group. The MOR and its railway administrations generally pay the Group at the end of a season or a year when they receive allocated funds from the PRC Government. This factor also affects the payment pattern of rail vehicle manufacturers as the MOR and its local administrations are their key customers. The purchases of the MOR and its railway administrations and the rail vehicle manufacturers are generally within the PRC Government's annual budget and it is therefore unlikely for them to fail to make payment. The Group's trade and accounts receivable turnover days were 178 days, 211 days, 202 days and 181 days for the three years ended 31 December 2003, 2004 and 2005 and the six-month period ended 30 June 2006, respectively. The Group has not experienced any material payment default from those customers. Most of the Group's trade and notes receivables are less than one year in age. Considering the funding sources of the Group's major customers, their close relationships with the Group and their payment history, the Directors believe there is no material receivable collection problem and the current provision for impairment of receivables is adequate. In addition, in light of the Group's settlement method of raw materials purchases and adequate borrowing capacity as described in "— Liquidity and Capital Resources — Cash flow management", the Group has not experienced and does not expect to have any cash flow problem as a result of its trade and notes receivable collection practice.

The increase of trade and notes receivable turnover days from 178 days for the year ended 31 December 2003 to 211 days for the year ended 31 December 2004 was primarily attributable to the fact while the closing balance of trade and notes receivable in 2004 included 100% of Times Electronics' trade and notes receivable as at 31 December 2004, Times Electronics' turnover was only consolidated with the Group's for the last three months of 2004. Trade and notes receivable turnover days decreased from 202 days for the year ended 31 December 2005 to 181 days for the six months ended 30 June 2006, primarily due to the Group's stricter enforcement of payment provisions, especially with new customers.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables include primarily amounts due from the Parent Company. The Group's prepayments, deposits and other receivables increased from RMB53.4 million as at 31 December 2003 to RMB128.3 million as at 31 December 2004, and further increased to RMB182.4 million as at 31 December 2005, primarily due to increases in receivables from CSR and its subsidiaries, in particular the Parent Company. The increase from 2003 to 2004 was primarily due to the Group's payment of the Parent Company's operating costs for the last three months of 2004 in the amount of RMB69.5 million. The increase from 2004 to 2005 was primarily due to the Group's payment of equity contributions to Shiling, ZELC and Beijing Locomotive Works (北京機車車輛廠) for the Parent Company in an aggregate amount of RMB101.0 million.

The Group's prepayment, deposits and other receivables decreased to RMB59.3 million as at 30 June 2006, primarily due to the Group's pre-incorporation profit distribution to ZELRI of RMB171.3 million by way of reduction of the Group's other receivables from ZELRI.

As at the Latest Practicable Date, the Group has fully settled its balances of non-trade prepayments, deposits and other receivables from CSR and its subsidiaries.

Set out below is a breakdown of the Group's prepayments, deposits and other receivables by nature as at the dates indicated:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	(RMB thousands)			
Prepayments, deposits and other receivables from:				
- CSR and its subsidiaries (other than the Group)	1,678	79,393	149,139	7,953
- third parties	51,751	49,103	33,381	51,360
	53,429	128,496	182,520	59,313
Less: Provision for impairment of receivables	(48)	(171)	(140)	—
	53,381	128,325	182,380	59,313

Trade and notes payable

The Group's trade and notes payable increased from RMB154.6 million as at 31 December 2003 to RMB268.9 million as at 31 December 2004, decreased to RMB208.2 million as at 31 December 2005, and then increased to RMB324.9 million as at 30 June 2006. Trade and notes payable increased from 2003 to 2004 primarily due to the inclusion of the trade and notes payables of four new subsidiaries in 2004. Times Electronics, Times Fittings, Zhuzhou Jierui and Times Guangchuang were the Group's associates and their assets and liabilities were not consolidated with the Group's in 2003. The Group acquired additional interests in them in September 2004, changing them to the Group's subsidiaries. Their assets and liabilities, including trade and notes payable, were consolidated with the Group's in 2004. The decrease of trade and notes payable from 2004 to 2005 was primarily due to the Group's voluntary reduction of credit periods with certain suppliers. The Group obtained reduced unit prices for certain of its raw materials in 2005 by agreeing to strict compliance with payment terms with certain suppliers. Trade and notes payable increased from 31 December 2005 to 30 June 2006, primarily due to the increase of the Group's purchases of raw materials as a result of the growth of its business. Set out below is an ageing analysis of the Group's trade and notes payable as at the dates indicated:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
		(RMB thousands)		
Within 3 months	125,081	227,417	167,619	239,679
Over 3 months but within 1 year	25,588	36,911	36,575	82,779
Over 1 year but within 2 years	3,312	3,282	3,199	1,924
Over 2 years but within 3 years	117	621	203	509
Over 3 years	520	639	579	52
	154,618	268,870	208,175	324,943

As at 30 September 2006, the Group settled RMB158.2 million of its trade and notes payable of RMB324.9 million as at 30 June 2006.

	Year ended 31 December			Six months ended 30 June
	2003	**2004**	**2005**	**2006**
Trade and notes payable turnover days[(1)]	131	166	161	145

Note:

(1) The calculation of trade and notes payable turnover days is based on the average of the opening balance and the closing balance of trade and notes payable divided by cost of sales multiplied by 365 days for a year/182.5 days for six months, as the case may be.

The increase of trade and notes payable turnover days from 131 days for the year ended 31 December 2003 to 166 days for the year ended 31 December 2004 was primarily attributable to the fact while the closing balance of trade and notes payable in 2004 included 100% of Times Electronics' trade and notes payable as at 31 December 2004, Times Electronics' turnover was only consolidated with the Group's for the last three months of 2004. Trade and notes payable turnover days decreased from 161 days for the year ended 31 December 2005 to 145 days for the six months ended 30 June 2006, primarily due to the Group's agreement to strict compliance with payment terms with certain suppliers in exchange for lower raw material unit prices.

Other payables and accruals

Other payables and accruals include primarily receipts-in-advance and deposits from customers, other taxes and levies payable, amounts due to CSR and its subsidiaries and accrued welfare expenses. Amounts due to CSR and its subsidiaries primarily arose from the Group's trade with those companies. The Group's other payables and accruals increased from RMB113.3 million as at 31 December 2003 to RMB174.7 million as at 31 December 2004, decreased to RMB161.2 million as at 31 December 2005 and then increased to RMB202.8 million as at 30 June 2006. Other payables and accruals increased from 2003 to 2004 primarily due to an increase in value-added tax, receipts in advance and accruals of RMB38.7 million, which was primarily due to the fact that Times Electronics was not included in the Group's results, but its results, assets and liabilities were consolidated with those of the Group after it became a subsidiary in September 2004.

As at the Latest Practicable Date, the Group has fully settled its balances of other payables and accruals due to CSR and its subsidiaries.

Set out below is a breakdown of the Group's other payables and accruals by nature as at the dates indicated:

	As at 31 December			As at 30 June
	2003	**2004**	**2005**	**2006**
	(RMB thousands)			
Receipts in advance	46,590	32,021	56,500	49,995
Other payables	64,053	131,041	67,839	97,387
Accruals	1,589	—	6,079	4,162
Amounts due to CSR and its subsidiaries (other than the Group)	1,089	11,604	30,831	51,214
	113,321	174,666	161,249	202,758

Inventories

The Group's main inventories include finished goods (including train-borne electrical systems and electrical components), work in progress and raw materials (including primarily metallic components and electric components). The Group's inventories have increased over the years during the Track Record Period primarily due to the growth of the Group's business. The increase of the Group's inventories from 2003 and 2004 was also due to the inclusion of Times Electronics' inventories in 2004 following Times Electronics' transition from the Group's associate to subsidiary. However, such increase was substantially offset by the Group's distribution of inventories of RMB49.5 million to the Parent Company in September 2004 as part of its RMB202.5 million distribution. See "— Reorganisation and Basis of Presentation" for details. Set out below is a table of inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	(RMB thousands)			
Raw materials	56,754	104,498	140,983	172,131
Work in progress	22,790	47,002	43,144	48,041
Finished goods	89,276	59,313	79,966	111,436
Consumables and packing materials	127	278	160	555
	168,947	211,091	264,253	332,163
Less: Provision for obsolete inventories	(5,550)	(28,492)	(40,375)	(45,081)
	163,397	182,599	223,878	287,082

The Group's inventories are stated at the lower of cost and net realisable value. During the Track Record Period, provision for obsolete inventories was made for the years ended 31 December 2003, 2004 and 2005 and the six months ended 30 June 2006. The Directors believe that the current inventory provision and costing method are appropriate and no further provision or write-off of inventories is necessary.

Set out below is an ageing analysis of the Group's inventories as at the dates indicated:

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	(RMB thousands)			
Within 6 months	129,718	123,126	166,764	216,850
Over 6 months but within 1 year	21,254	20,677	26,103	43,093
Over 1 year but within 2 years	11,853	33,844	18,251	22,723
Over 2 years	6,122	33,444	53,135	49,497
	168,947	211,091	264,253	332,163
Less: Provision for obsolete inventories	(5,550)	(28,492)	(40,375)	(45,081)
	163,397	182,599	223,878	287,082

As at 30 June 2006, the Group's raw materials, work in progress, finished goods and consumables and packing materials (before provision for obsolete inventories) amounted to approximately RMB172.1 million, RMB48.0 million, RMB111.4 million and RMB0.6 million, respectively, of which RMB45.6 million, RMB38.0 million, RMB43.1 million and RMB0.3 million was used or sold as at 30 September 2006.

	Year ended 31 December			Six-month period ended 30 June
	2003	2004	2005	2006
Inventory turnover days[1]	120	136	137	143

Note:

(1) The calculation of inventory turnover days is based on the average of the opening balance and the closing balance of inventories divided by cost of sales multiplied by 365 days for a year/182.5 days for six months, as the case may be.

The increase of inventory days from 120 days for the year ended 31 December 2003 to 136 days for the year ended 31 December 2004 was primarily attributable to the fact while the closing balance of inventories in 2004 included 100% of Times Electronics' inventories as at 31 December 2004, Times Electronics' cost of sales was only consolidated with the Group's for the last three months of 2004. This factor was, however, partially offset by the increased turnover rate of train operation safety equipment inventories due to increased demand and sales of train operation safety equipment in 2004.

Net current assets

The table below sets forth the Group's current assets, current liabilities and net current assets as at 30 September 2006:

	RMB thousands
	(unaudited)
CURRENT ASSETS	
Inventories	340,890
Trade receivables	494,684
Notes receivable	125,155
Prepayments and other receivables	105,056
Pledged deposits	4,167
Cash and cash equivalents	77,476
Sub-total	1,147,428
CURRENT LIABILITIES	
Trade payables	235,729
Notes payable	81,504
Other payable and accruals	125,041
Provision for warranties	47,647
Interest-bearing bank and other borrowing	220,197
Tax payable	159
Sub-total	710,277
NET CURRENT ASSETS	437,151

CAPITAL EXPENDITURES

The Group's capital expenditures principally comprise purchases of property, plant and equipment and lease prepayments, which are essentially the Group's cost of acquiring land use rights.

The following table sets forth the Group's historical capital expenditures for the last three financial years, and the Group's projected capital expenditures during the current year:

	Year ended 31 December				
	2003	2004	2005	2006(1)	2006(2)
	(RMB thousands)				
Total capital expenditures	84,403	76,202	100,702	51,845	113,568

Notes:

(1) Actual expenditures through 30 June 2006.

(2) Projected expenditures from 1 July 2006 to 31 December 2006.

CAPITAL COMMITMENT

The following table presents the Group's capital commitments as at the dates indicated:

	As at 31 December			As at 30 June
	2003	2004	2005	2006
	(RMB thousands)			
Contracted, but not provided for:				
— acquisition of items of property, plant and equipment	59,471	21,183	35,487	34,664

As at 30 September 2006, the Group had settled RMB9.9 million of its capital commitments of RMB34.7 million outstanding as at 30 June 2006. The Group plans to fund its remaining capital commitments through cash generated from operations and bank loans. The Group expects to pay a majority of the remaining capital commitments by the end of 2006 and the rest by the end of 2007.

INDEBTEDNESS

As at 30 September 2006, the Group's aggregate outstanding loans are as follows:

	Principal amount as at 30 September 2006
	(RMB thousands)
Mature within one year	220,197

The following table sets forth the Group's indebtedness as of the dates presented:

	As at 31 December			As at 30 June	As at 30 September
	2003	2004	2005	2006	2006
	(RMB thousands)				
Interest-bearing bank and other borrowings under current liabilities	180,802	238,499	252,521	171,046	220,197

The total debt disclosed above represents bank loans and borrowings from independent third parties. As at 30 September 2006, bank loans of RMB8 million were secured by the Company's notes receivable.

The Group did not have, at the close of business on 30 September 2006, any loan capital issued or agreed to be issued, outstanding bank overdrafts and liabilities under acceptances (other than normal trade bills) or other similar indebtedness, debentures, mortgages, charges or loans or acceptance credits, finance leases or hire purchase commitments or guarantees or material contingent liabilities.

The Directors have confirmed that there have been no material changes in the Group's contingent liabilities since 30 September 2006.

In November 2006, the Group borrowed new short-term bank loans in an aggregate amount of RMB168.0 million primarily for the payment of the special dividend in the amount of RMB167,538,000, which the Company declared on 29 November 2006 and paid on 30 November 2006.

The Directors have confirmed that, save as disclosed above, there have been no material changes in the Group's indebtedness since 30 September 2006.

Contingent liabilities

The Group is not involved in any current material legal proceedings, nor is the Group aware of any pending or potential material legal proceedings involving the Group.

MARKET RISKS

The Group is exposed to various types of market risks, including changes in interest rate risks, foreign exchange risks and inflation risks in the normal course of business.

Interest Rate

The Group is exposed to interest rate risk resulting from fluctuations in interest rates on its debt. The Group undertakes debt obligations to support general corporate purposes including capital expenditures and working capital needs. The Group's loans bear interest rates that are subject to adjustment by its lenders in accordance with changes in relevant PBOC regulations. If the PBOC increases interest rates, the Group's finance cost will also increase. In addition, to the extent that the Group may need to raise debt financing in the future, upward fluctuations in interest rates will increase the cost of new debt. The Group does not currently use any derivative instruments to modify the nature of its debt so as to manage its interest rate risk.

Foreign Exchange

The Group exports a relatively small percentage of its products to foreign customers and also procure raw materials from foreign suppliers. The Group also has a limited amount of outstanding loans denominated in US dollar. Therefore, the Group has a certain level of exposure to foreign exchange fluctuations. The exchange rates of Renminbi have been relatively stable during the past few years. The Renminbi is not a freely convertible currency. However, the PRC Government may take actions that could cause future exchange rates to vary significantly from current or historical exchange rates. Fluctuations in exchange rates may adversely affect the value, translated or converted into Hong Kong dollars, of the Group's net assets, earnings and any dividends the Company may declare. See "Risk Factors — Risks Relating to the PRC — Fluctuations of the Renminbi could materially affect the results of operations and the value of, and dividends payable on, H shares in foreign currency."

Inflation

In recent years, the PRC has not experienced significant inflation, and thus inflation has not had a significant effect on the Group's business during the past three years. According to the China Statistical Bureau, China's overall national inflation rate, as represented by the general consumer price index, was approximately 1.8% in 2005, 3.9% in 2004 and 1.2% in 2003.

DISCLOSURE REQUIRED UNDER THE LISTING RULES

The Directors have confirmed that they are not aware of any circumstances which, had the Group been required to comply with Rule 13.13 to 13.19 of the Listing Rules, would have given rise to a disclosure requirement under that Practice Note.

PROFIT FORECAST

Based on the Group's audited results 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 Group's results for the remaining three months ending 31 December 2006, and in the absence of unforeseen circumstances, the Directors forecast that the Group's consolidated profit attributable to equity holders of the Company for the year ending 31 December 2006 will not be less than RMB268 million.

On a weighted average basis based on the above profit forecast and assuming that (i) the Shares to be issued pursuant to the Global Offering will be issued on 20 December 2006 and that (ii) the Over-allotment Option will not be exercised, the forecast earnings per Share on a weighted basis is RMB0.39, representing weighted average price to earnings multiples of 11.0 times and 13.9 times based on the Offer Prices of HK$4.18 and HK$5.30 per Share, respectively. On a pro forma fully diluted basis and on the assumption that the Global Offering had been completed and a total of 1,030,171,637 Shares were in issue and outstanding throughout the year ending 31 December 2006 (taking no account of any Share that may be issued pursuant to the exercise of the Over-allotment Option), the forecast earnings per Share on a pro forma fully diluted basis for the year ending 31 December 2006 would be RMB0.26, representing fully diluted price to earnings multiples of approximately 16.1 times and 20.4 times based on the Offer Prices of HK$4.18 and HK$5.30 per Share, respectively.

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. Effective 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 shareholders for the period from 1 July 2006 to 31 December 2008. Such policy will be reviewed by the Board thereafter.

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 two years ended 31 December 2004 and 2005, respectively.

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

WORKING CAPITAL

Taking into account the estimated net proceeds from the Global Offering, available banking facilities and cash flows from the Group’s operations, the Directors confirm that the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this prospectus.

DISTRIBUTABLE RESERVES

As at 30 June 2006, the Company had nil reserve available for distribution to the Shareholders of the Company. Distributable reserves are determined under the lower of net profit of the Company under PRC GAAP and IFRS.

ADJUSTED NET TANGIBLE ASSETS

The following statement of adjusted net tangible assets of the Group is prepared based on the net tangible assets of the Group as set out in "Appendix I — Accountants' Report" adjusted as described below:

	Audited net tangible assets attributable to equity holders of the Company as at 30 June 2006(1)	Add: Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets	Unaudited pro forma adjusted net asset value per Share
	(RMB thousands)			*RMB(3)*
Based on an Offer Price of HK$4.18 per Share	769,676	1,422,090	2,191,766	2.13
Based on an Offer Price of HK$5.30 per Share	769,676	1,819,790	2,589,466	2.51

Notes:

1. The net tangible assets attributable to the equity holders of the Company as at 30 June 2006

	RMB'000
Audited net assets as set out in Appendix I	785,820
Minority interests	(2,380)
Net assets attributable to equity holders of the Company	783,440
Less: Intangible assets	(13,764)
Net tangible assets attributable to equity holders of the Company	769,676

2. The estimated net proceeds from the Global Offering are based on an Offer Price of HK$4.18 or HK$5.30 per H Share after deduction of the underwriting fees and other related expenses payable by the Company and takes no account of any H Share which may be issued upon exercise of the Over-allotment Option.

3. The unaudited pro forma adjusted net tangible asset value per Share is calculated based on 1,030,171,637 Shares in issue immediately following the completion of the Global Offering without taking into account any Shares which may be issued upon exercise of the Over-allotment Option and the special dividend of RMB167,538,000 approved in the shareholders' meeting of the Company on 29 November 2006.

4. The property interests of the Group as at 30 September 2006 have been valued by Knight Frank Petty Limited, an independent property valuer, and the relevant property valuation report is set out in Appendix IV to this prospectus. The above adjustment does not take into account the surplus arising from the revaluation of the property interests of the Group amounting to RMB68.1 million (equivalent to approximately HK$67.1 million). The revaluation surplus will not be incorporated in the Group's financial statements for the year ending 31 December 2006. If the revaluation surplus was recorded in the Group's financial statements, the annual depreciation expense of the Group for the year ending 31 December 2006 would be increased by approximately RMB3.2 million (equivalent to HK$3.15 million based on an exchange rate of RMB1.0154 to HK$1.00).

Property valuation

Knight Frank Petty Limited, an independent property valuer, has valued the Group's property interests as at 30 September 2006 and is of the opinion that the value of the Group's property interests in an aggregate amount of RMB321 million as at 30 September 2006. The full text of the letter, summary of values and valuation certificates with regard to such property interests are set forth in Appendix IV to this prospectus.

A reconciliation of the property interests of the Group and the valuation of such property interests as required under Rule 5.07 of the Listing Rules is set out below:

	RMB'000
Market value of properties attributable to the Group as at 30 September 2006 as set out in Appendix IV to this prospectus	321,340
Less: Market value of properties acquired during 1 July to 30 September 2006	(650)
Less: Net book value of property interests as at 30 June 2006	(252,593)[1]
Revaluation surplus	68,097

Note

(1) Such balance was included in property, plant and equipment and lease prepayments in Appendix I to the Prospectus.

NO MATERIAL ADVERSE CHANGE

The Directors have confirmed that there has been no material adverse change in the Group's financial or trading position since 30 June 2006 (being the date of the Company's latest audited consolidated financial results as set out in "Appendix I — Accountants' Report" to this prospectus).