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8 December 2006

The Directors
Zhuzhou CSR Times Electric Co. Ltd.
Macquarie Securities Limited
CAF Securities Company Limited

Dear Sirs,

We set out below our report on the financial information regarding Zhuzhou CSR Times Electric Co. Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") for the three years ended 31 December 2005 and the six-month period ended 30 June 2006 (the "Relevant Periods") and the six-month period ended 30 June 2005 (the "30 June 2005 Financial Information") prepared on the basis set out in Section 2 below for inclusion in the prospectus of the Company dated 8 December 2006 (the "Prospectus") in connection with the initial listing of the shares of the Company on The Stock Exchange of Hong Kong Limited.

As part of the restructuring of CSR Zhuzhou Electric Locomotive Research Institute ("ZELRI") as described in Section 1 below (the "Reorganisation"), the Company was incorporated in the People's Republic of China (the "PRC") on 26 September 2005 as a joint stock company with limited liability under the Company Law of the PRC. Pursuant to the Reorganisation, ZELRI injected its assets, liabilities and businesses relating to the manufacture and sale of train-borne electrical systems and electrical components (the "Relevant Businesses") into the Company as capital contribution, and the Company issued 629,811,637 shares of RMB1.00 each to ZELRI credited as fully paid as consideration. Thereafter, ZELRI became the Company's holding company. In the opinion of the directors, the Company's ultimate holding company is China Southern Locomotive & Rolling Stock Industry (Group) Corporation ("CSR").

The Group is principally engaged in the manufacture and sale of train-borne electrical systems and electrical components. The Company and its subsidiaries have adopted 31 December as their financial year end date. The management accounts of these companies were prepared in accordance with the relevant accounting principles and financial regulations applicable to these companies and were not audited by us. For the purpose of this report, the directors of the Company have prepared the special purpose consolidated financial statements of the Group under the PRC Enterprise Accounting System ("PRC GAAP") for the years ended 31 December 2003, 2004 and 2005 (the "PRC GAAP Financial Statements"). The PRC GAAP Financial Statements were audited by Ernst & Young Hua Ming, Certified Public Accountants registered in the PRC.

The consolidated results, consolidated statements of changes in equity and the consolidated cash flow statements of the Group for the Relevant Periods and the six-month period ended 30 June 2005, the consolidated balance sheets of the Group as at 31 December 2003, 2004, 2005 and 30 June 2006 and the balance sheets of the Company as at 31 December 2005 and 30 June 2006, together with the notes thereto set out in this report (collectively the "Financial Information") have been prepared from the PRC GAAP Financial Statements, the unaudited management accounts of the Group for the six-month period ended 30 June 2005, and the unaudited management accounts of the Company and the Group for the six-month period ended 30 June 2006, on the basis set out in Section 2 below, after making such adjustments as are appropriate to comply with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board (the "IASB").

The directors of the Company are responsible for the preparation of the Financial Information which gives, for the purpose of this report, a true and fair view. The directors of the companies now comprising the Group are responsible for the preparation of the respective financial statements and where appropriate, management accounts which give a true and fair view. In preparing the Financial Information, financial statements and management accounts which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates made are prudent and reasonable, and that the reasons for any significant departure from applicable accounting standards are stated. It is our responsibility to form an independent opinion and conclusion on such information in respect of the Relevant Periods and for the six-month period ended 30 June 2005, respectively, and to report our audit opinion and review conclusion to you.

Procedures Performed in Respect of the Relevant Periods

For the purpose of this report, we have undertaken an independent audit on the Financial Information in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), and have carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

Procedures Performed in Respect of the 30 June 2005 Financial Information

For the purpose of this report, we have also performed a review of the 30 June 2005 Financial Information in accordance with SAS 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of management and applying analytical procedures to the financial information and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets and liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an opinion on the 30 June 2005 Financial Information.

Opinion in Respect of the Relevant Periods

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the consolidated results and consolidated cash flows of the Group for each of the Relevant Periods and of the state of affairs of the Group as at 31 December 2003, 2004 and 2005 and 30 June 2006 and of the Company as at 31 December 2005 and 30 June 2006.

Review Conclusion in Respect of the 30 June 2005 Financial Information

On the basis of our review, for the purpose of this report, we are not aware of any material modification that should be made to the consolidated results and consolidated cash flows of the Group as set out in the 30 June 2005 Financial Information.

1. GROUP REORGANISATION

The Company was incorporated in the PRC on 26 September 2005 as a joint stock company with limited liability under the Company Law of the PRC. The registered capital of the Company is RMB 669,611,637, divided into 669,611,637 shares of par value of RMB1.00 each.

Pursuant to the Reorganisation with an effective date of 30 September 2004, ZELRI, as the principal promoter of the Company, injected the Relevant Businesses into the Company as capital contribution for subscribing approximately 94.06% of the equity interest in the Company, and the Relevant Businesses at the effective date of Reorganisation include the following:

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

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

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

The net asset value of the Relevant Businesses injected into the Company was RMB629,811,637 as appraised by a PRC valuer and further details of the assets and liabilities excluded from the Relevant Businesses as mentioned in 1(a) above and retained by ZELRI are set out in Section 7(d)(i) below. In addition, subsidiaries, associates and business divisions of ZELRI not engaged in the Relevant Businesses are also retained by ZELRI. The subsidiaries, associates, business divisions, assets and liabilities retained by ZELRI are collectively referred to as the "Retained Businesses".

CSR Zhuzhou Electric Locomotive Company, Ltd., CSR Qishuyan Locomotive & Rolling Stock Works, New Leap Communication Equipment Invest Development Co., Ltd. (previously known as CSR Marketing and Leasing Corp., Ltd.) and China Railway Large Maintenance Machinery Co., Kunming, the other promoters of the Company (collectively the "Other Promoters"), contributed respectively RMB10 million, RMB10 million, RMB10 million and RMB9.8 million in cash to subscribe for approximately 1.49%, 1.49%, 1.49% and 1.47% equity interests in the Company.

The Financial Information presents the financial position, consolidated results and cash flows of the Group under the basis as if the Relevant Businesses had been transferred to the Company by ZELRI as at the beginning of the Relevant Periods. During the Relevant Periods, ZELRI acquired 60%, 80%, 40% and 1.67% equity interests in Times Electronics, Zhuzhou Times Fittings Technical Service Co., Ltd. ("Times Fittings"), Zhuzhou Times Monitor Technology Co., Ltd. ("Times Monitor") and Zhuzhou Times Printed Circuit Board Technology Company Limited ("Times PCB") respectively in September 2004, and Times Electronics also acquired a 74.29% equity interest in Zhuzhou Jierui Electric Engineering Co., Ltd ("Zhuzhou Jierui") in September 2004. Such acquired equity interests comprised part of the Relevant Businesses following the respective effective dates of acquisition and hence such acquisitions were dealt with in the Financial Information from their respective effective dates of acquisition rather than at the beginning of the Relevant Periods.

As at the date of this report, the Company has direct and indirect interests in the following subsidiaries and associate:

Company name	*Notes*	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity interests attributable to the Group		Principal activities
				Direct	Indirect	
Subsidiaries:						
Ningbo Company	(1)	PRC 4 February 1992	RMB48,826,200	100	—	Manufacture and sale of sensors and vacuum sanitary units
Times Electronics *	(2)	PRC 28 December 1992	RMB80,000,000	100	—	Manufacture and sale of electrical control systems for large railway maintenance vehicles

Company name	Notes	Place and date of incorporation/ establishment and operations	Paid-up/ registered capital	Percentage of equity interests attributable to the Group Direct	Indirect	Principal activities
Subsidiaries: (continued)						
Zhuzhou Times Guangchuang Converter Technology Co., Ltd. ("Times Guangchuang") **	(3)	PRC 15 May 2001	RMB3,000,000	—	70	Manufacture and sale of power supply equipment for air conditioners of locomotives
Times Electric, USA LLC	(4)	United States of America 4 November 2005	US$200,000	100	—	Sale of electric, electronic and mechanical products
Associate:						
Zhuzhou Times Hi-Technology Property Management Co., Ltd.	(5)	PRC 31 March 2004	RMB3,500,000	—	28	Property management in the PRC

* *Times Electronics was previously a 30%-owned associate of ZELRI. ZELRI acquired an additional 60% equity interest in Times Electronics in September 2004 (see Section 4(a)(ii) and 7(a)) and Times Electronics became a subsidiary of ZELRI. Pursuant to the Reorganisation, ZELRI injected its 90% equity interest in Times Electronics into the Company. In June 2006, the Group acquired a further 10% equity interest in Times Electronics and Times Electronics thereafter became a wholly-owned subsidiary of the Group (see Section 4(a)(ii)).*

** *Times Guangchuang is 70% directly held by Times Electronics. Times Electronics became a subsidiary of the Group in September 2004 pursuant to the Reorganisation as mentioned above and Times Guangchuang became an indirectly held subsidiary of the Group in September 2004.*

Notes:

(1) The statutory financial statements for the year ended 31 December 2003 were audited by Ningbo Zhencheng United, Certified Public Accountants in the PRC. The statutory financial statements for the years ended 31 December 2004, and 2005 were audited by Reanda, Certified Public Accountants in the PRC.

(2) The statutory financial statements for the year ended 31 December 2003 were audited by Zhong Xing Zheng Xin, Certified Public Accountants in the PRC. The statutory financial statements for the years ended 31 December 2004 and 2005 were audited by Reanda, Certified Public Accountants in the PRC.

(3) The statutory financial statements for the year ended 31 December 2003 were audited by Zhong Xing Zheng Xin, Certified Public Accountants in the PRC. The statutory financial statements for the years ended 31 December 2004, and 2005 were audited by Reanda, Certified Public Accountants in the PRC.

(4) No statutory audited financial statements for the year ended 31 December 2005 have been prepared.

(5) The statutory financial statements for the year ended 31 December 2004 were audited by Hunan Carea Limited, Certified Public Accountants in the PRC. The statutory financial statements for the year ended 31 December 2005 were audited by Reanda, Certified Public Accountants in the PRC.

2. BASIS OF PREPARATION

As ZELRI controlled the Relevant Businesses before the Reorganisation and continues to have control over the Group after the Reorganisation, the Reorganisation has been accounted for as a reorganisation of entities under common control in a manner similar to pooling of interests. As a result, the Financial Information has been prepared on the basis as if the Relevant Businesses had been transferred to the Company by ZELRI at the beginning of the Relevant Periods. Accordingly, the assets and liabilities comprising the Relevant Businesses transferred to the Company have been stated at historical amounts. As mentioned in Section 1 above, ZELRI's acquisitions of 60%, 80%, 40% and 1.67% of the equity interests in Times Electronics, Times Fittings, Times Monitor and Times PCB respectively and Times Electronics's acquisition of a 74.29% equity interest in Zhuzhou Jierui in September 2004 were dealt with in the Financial Information from the respective effective dates of acquisition when such acquired equity interests comprised part of the Relevant Businesses.

Those individual assets and liabilities excluded from the Relevant Businesses injected into the Company as mentioned in Section 1(a) (i) to (a) (iv) above were included in the Financial Information up to the effective date of the Reorganisation of 30 September 2004 when such assets and liabilities were treated as a distribution to ZELRI on 30 September 2004 (see Section 7(d)(i)).

3. PRINCIPAL ACCOUNTING POLICIES

The Financial Information has been prepared in accordance with IFRS, which comprise standards and interpretations approved by the IASB, and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect. The following standards have been early adopted as at the beginning of the Relevant Periods:

IAS 1 (amended 2004)	Presentation of Financial Statements
IAS 2 (revised 2003)	Inventories
IAS 7 (amended 2003)	Cash Flow Statements
IAS 8 (revised 2003)	Accounting Policies, Changes in Accounting Estimates and Errors
IAS 10 (amended 2004)	Events after the Balance Sheet Date
IAS 11 (revised 2004)	Construction Contracts
IAS 12 (amended 2004)	Income Taxes
IAS 14 (amended 2004)	Segment Reporting
IAS 16 (amended 2004)	Property, Plant and Equipment
IAS 17 (amended 2004)	Leases
IAS 18 (amended 2004)	Revenue
IAS 19 (amended 2004)	Employee Benefits
IAS 19 Amendment	Actuarial Gains and Losses, Group Plans and Disclosures
IAS 20 (amended 2003)	Accounting for Government Grants and Disclosure of Government Assistance

IAS 21 (amended 2003)	The Effects of Changes in Foreign Exchange Rates
IAS 23 (amended 2003)	Borrowing Costs
IAS 24 (revised 2003)	Related Party Disclosures
IAS 26 (amended 2004)	Accounting and Reporting by Retirement Benefit Plans
IAS 27 (amended 2004)	Consolidated and Separate Financial Statements
IAS 28 (amended 2004)	Investments in Associates
IAS 31 (amended 2004)	Interests in Joint Ventures
IAS 32 (amended 2004)	Financial Instruments: Disclosure and Presentation
IAS 33 (amended 2004)	Earnings per Share
IAS 36 (amended 2004)	Impairment of Assets
IAS 37 (amended 2004)	Provision, Contingent Liabilities and Contingent Assets
IAS 38 (amended 2004)	Intangible Assets
IAS 39 (amended 2004)	Financial Instruments: Recognition and Measurement
IAS 39 Amendment	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
IAS 39 Amendment	The Fair Value Option
IAS 39 & IFRS 4 Amendments	Financial Guarantee Contracts
IFRS 1	First-time Adoption of International Financial Reporting Standards
IFRS 2	Share-based Payment
IFRS 3	Business Combinations
IFRS 5	Non-current Assets Held For Sale and Discontinued Operations
IFRIC — Int 4	Determining whether an Arrangement contains a Lease
IFRIC — Int 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC — Int 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment

Impact of issued but not yet effective IFRS

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective in the Financial Information.

IAS 1 Amendment	Capital Disclosures
IFRS 7	Financial Instruments: Disclosures
IFRIC — Int 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies
IFRIC — Int 8	Scope of IFRS 2
IFRIC — Int 9	Reassessment of Embedded Derivatives
IFRIC — Int 10	Interim Financial Reporting and Impairment
IFRIC — Int 11	Group and Treasury Share Transaction

The IAS 1 Amendment shall be applied for annual periods beginning on or after 1 January 2007. The revised standard will affect the disclosures about qualitative information about the Group's objective, policies and processes for managing capital; quantitative data about what the Company regards as capital; and compliance with any capital requirements and the consequences of any non-compliance.

IFRS 7 requires disclosure relating to financial instruments and incorporates many of the disclosure requirements of IAS 32. This IFRS shall be applied for annual periods beginning on or after 1 January 2007.

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

The Financial Information has been prepared on a historical cost basis, except for certain financial assets as further explained below. The Financial Information is presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiaries after elimination of intercompany transactions.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group has control.

Minority interests represent the interests of outside shareholders in the results and net assets of the Company's subsidiaries.

The acquisition of subsidiaries by the Group has been accounted for using the purchase method of accounting. The purchase method of accounting involves allocating the cost of a business combination to the fair value of the assets acquired and liabilities and contingent liabilities assumed at the date of acquisition.

Goodwill

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

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

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

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Group controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated in the Company's balance sheet at cost less any impairment losses.

Associates

The Group's interests in associates are accounted for under the equity method of accounting. Associates are entities in which the Group has significant influence and which are neither subsidiaries nor jointly-controlled entities.

The interests in associates are carried in the consolidated balance sheet at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. The consolidated income statement reflects the Group's share of the results of operation of the associates.

Foreign currencies

The Financial Information is presented in Renminbi, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the balance sheet date. All differences are taken to the consolidated income statement. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

On consolidation, the financial statements of overseas subsidiaries are translated into Renminbi. As at the balance sheet date, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the balance sheet date and, their income statements are translated into Renminbi at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. No such translation difference arose during the Relevant Periods.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

Property, plant and equipment and depreciation

Property, plant and equipment, which consist of buildings, plant, machinery and equipment and construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the consolidated income statements in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment, and where the cost of the item can be measured reliably, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life, after taking into account their estimated residual value. The estimated useful lives of property, plant and equipment are as follows:

	Useful life
Buildings	20 years
Plant, machinery and equipment	10 years
Computer equipment and others	5 years

The gain or loss on disposal or retirement of a property, plant and equipment recognised in the consolidated income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset at the time of disposal.

Construction in progress

Construction in progress represents buildings, plant, machinery and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises direct costs of construction and interest charges on related borrowed funds during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Lease prepayments

Lease prepayments represent the cost of land use rights paid to the PRC government authorities. Land use rights are stated at cost less accumulated amortisation and any impairment losses. The land use rights are amortised on the straight-line basis over the terms of the rights of 50 years.

Intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset are reviewed at least at each balance sheet date.

Technical know-how

Purchased royalty, patents and licences

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

Computer software

Acquired computer softwares are capitalised on the basis of the costs incurred to acquire and bring to use the specific softwares. These costs are amortised using the straight-line method over their estimated useful lives of 5 to 10 years.

Research and development costs

Research costs are expensed as incurred. Development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or otherwise when events or changes in circumstances indicate that the carrying value may not be recoverable.

Impairment of assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognised in the consolidated income statements in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount, that increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated income statements unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments and other financial assets

Financial assets in the scope of IAS39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e., the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category "financial assets at fair value through profit or loss". Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in the consolidated income statements.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method. Gains and losses are recognised in the consolidated income statements when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long term investments that are intended to be held to maturity, such as bonds, are subsequently measured at amortised cost. Amortised cost is computed as the amount initially recognised minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initially recognised amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortised cost, gains and losses are recognised in the consolidated income statements when the investments are derecognised or impaired, as well as through the amortisation process.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets in listed and unlisted equity securities that are designated as available for sale or are not classified in any of the other three categories. After initial recognition, available-for-sale financial assets are measured at fair value, with gains or losses recognised as a separate component of equity until the investment is derecognised or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the consolidated income statements. When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

Fair value

The fair value of investments that are actively traded in organised financial markets is determined by reference to quoted market bid prices at the close of business at the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of manufacturing overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Trade and other receivables

Trade and other receivables are recognised and carried at invoice amounts less allowances for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Cash and cash equivalents

For the purpose of the consolidated cash flow statements, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the balance sheets, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the consolidated income statements.

Provision for product warranties granted by the Group for its products is recognised based on the sales volume and past experience of the level of repairs, discounted to its present value as appropriate.

Interest-bearing loans and borrowings

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

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the consolidated income statements on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases are charged to the consolidated income statements on the straight-line basis over the lease terms.

Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statements, or in equity if it relates to items that are recognised in the same or a different period directly in equity.

PRC corporate income tax is provided at rates applicable to enterprises in the PRC on the Group's income for financial reporting purposes, as adjusted for income and expense items which are not assessable or deductible for income tax purposes.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Conversely, previously unrecognised deferred tax assets are reassessed at each balance sheet date and are recognised to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset; and

(d) dividend income, when the shareholders' right to receive payment has been established.

Retirement benefits

The Company and its subsidiaries established in the PRC are required to participate in a central pension scheme operated by relevant government authorities in the PRC. The Group contributes on a monthly basis to the relevant defined contribution retirement benefit plans, the PRC government undertakes to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to the consolidated income statements as they become payable in accordance with the rules of the central pension scheme.

The Group also provides supplementary pension benefit to the employees according to an internal employee benefit policy. Under such policy, the Group pays contributions to a fund managed by a committee comprising the representatives of the companies comprising the Group and the employees, which manages the fund on behalf of the employees. The Group has no further obligations other than the required contributions. The contributions are recognised as employee benefit expense when incurred. Such supplementary pension benefit was terminated by the Group during the year ended 31 December 2005.

In 2006, the Group implemented a new pension annuity plan pursuant to which the Group is required to contribute a fixed percentage of salaries to the plan regularly and the Group has no further obligation thereto once the required contribution has been made. The contributions are recognised as employee benefit expense when incurred.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d); or

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e).

Significant accounting judgements and estimates

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision for obsolete inventories

Management reviews the condition of inventories of the Group at each balance sheet date and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at each balance sheet date.

Impairment of receivables

The policy for impairment of receivables of the Group is based on the evaluation of collectability and the aging analysis of trade receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation on each of the balance sheet date.

Useful lives and impairment of property, plant and equipment

The Group's management determines the estimated useful lives of its property, plant and equipment based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. Management will increase the depreciation charge where useful lives are less than previously estimated lives. The impairment loss for property, plant and equipment is recognised for the amount by which the carrying amount exceeds its recoverable amount.

Segment information

Segment information is required by IAS 14 "Segment Reporting" to be presented by way of two segment formats: (i) on a primary segment reporting basis, which the Group has determined to be by business segment; and (ii) on a secondary segment reporting basis, which the Group has determined to be by geographical segment. The Group is principally engaged in the manufacture and sale of electrical systems and components relating to locomotive and rolling stock. All of the Group's products are of a similar nature and subject to similar risks and returns. Accordingly, the Group's operating activities are attributable to a single business segment. In addition, the Group's revenue, expenses, profit, assets and liabilities and capital expenditures are principally attributable to a single geographical region, which is the PRC. Therefore, no analysis in business or geographical segment is presented.

FINANCIAL INFORMATION

4. CONSOLIDATED INCOME STATEMENTS

The following is a summary of the consolidated results of the Group for the Relevant Periods and the six-month period ended 30 June 2005, which is prepared on the basis set out in Section 2 above:

		The Group				
		Year ended 31 December			Six-month period ended 30 June	
	Notes	**2003**	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Turnover	(a)	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	(a)	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	(b)	86,609	187,591	232,375	142,953	165,861
Finance costs	(c)	(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	(e)	—	(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)	(f)	RMB0.16	RMB0.26	RMB0.33	RMB0.21	RMB0.23
Dividends	(h)	—	51,476	119,852	109,343	167,538

Notes:

(a) **Turnover, other revenue and gains**

Turnover represents the net invoice value of goods sold, net of discounts and returns.

An analysis of the turnover, other revenue and gains of the Group is as follows:

		The Group				
		Year ended 31 December			Six-month period ended 30 June	
	Notes	**2003**	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000 (unaudited)*	*RMB'000*
Turnover:						
Sale of goods		661,748	791,875	1,005,780	544,099	638,447
Less: Sales tax and surcharge		(2,986)	(4,119)	(7,804)	(2,736)	(4,520)
		658,762	787,756	997,976	541,363	633,927
Other revenue and gains:						
Interest income		3,325	2,343	1,238	885	296
Dividend income		150	—	—	—	—
Profit from sale of raw materials		2,611	287	3,345	884	1,349
Profit from sale of scrap inventories	(i)	—	18,966	—	—	—
Gross rental income		928	837	—	—	1,189
Exchange gains, net		—	1,916	4,212	3,189	309
Excess of acquirers' interests in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries	(ii)	—	46,822	—	—	—
Excess of the acquirers' additional interests in the carrying value of the acquirees' net assets over the cost of acquisition of additional interests in subsidiaries	(iii)	—	4,644	—	—	7,414
Value-added tax refund	(iv)	5,125	7,086	6,969	4,148	9,464
Technical service income		—	1,230	1,320	—	427
Others		2,282	2,011	1,446	118	1,030
Total		14,421	86,142	18,530	9,224	21,478

Notes:

(i) In 2001, certain inventories were written-off because the technology used to produce these inventories has become outdated and the write-off of the inventories was approved by relevant PRC government authorities. In 2004, as the technology has stepped up, certain of these inventories were disposed of after the modification and upgrading work performed. The income realised amounted to RMB20,967,000 and the related upgrading costs incurred amounted to RMB2,001,000. The net gain on such disposal amounted to RMB18,966,000.

(ii) In 2004, ZELRI acquired a further 60% equity interest in Times Electronics, a previous 30%-owned associate of ZELRI, at a consideration of RMB54,900,000. Thereafter, Times Electronics became a subsidiary of ZELRI and comprised part of the Relevant Businesses injected into the Company pursuant to the Reorganisation. The excess of ZELRI's interest in the net fair value of assets, liabilities and contingent liabilities of Times Electronics acquired over the cost of acquisition of RMB39,741,000 is included in the Financial Information and credited to the Group's consolidated results for the year ended 31 December 2004. In June 2006, the Group acquired a further 10% equity interest in Times Electronics and thereafter Times Electronics become a wholly-owned subsidiary of the Group (see Section 1).

In addition to the above, Times Electronics has also acquired a 100% equity interest in Zhuzhou Jierui, a then 25.71%-owned associate of ZELRI, at a consideration of RMB17,500,000. Zhuzhou Jierui is engaged in the production of testing equipment and temperature detecting devices. The 25.71% equity interest in Zhuzhou Jierui owned by ZELRI comprised part of the Relevant Businesses prior to such acquisition and hence the net consideration attributable to the Group was RMB13,000,000, which excluded the consideration of RMB4,500,000 paid for the acquisition of such 25.71% equity interest in Zhuzhou Jierui from ZELRI. The excess of the Group's interest in the net fair value of assets, liabilities and contingent liabilities of Zhuzhou Jierui acquired over the cost of acquisition of RMB7,081,000 is credited to the Group's consolidated results for the year ended 31 December 2004. Upon the completion of the acquisition, Zhuzhou Jierui was deregistered on 30 September 2004 and its assets, liabilities and businesses were transferred to Times Electronics.

In 2004, ZELRI acquired a 80% equity interest in Times Fittings, a then 20%-owned associate of ZELRI, for a consideration of RMB7,200,000. Thereafter, Times Fittings was deregistered on 30 September 2004 and its assets, liabilities and businesses were transferred to the Company as part of the Relevant Businesses by ZELRI pursuant to the Reorganisation. Such acquisition did not have any effect on the Group's consolidated income statements because the purchase consideration approximate to the interest in the net fair value of assets, liabilities and contingent liabilities of Times Fittings acquired.

(iii) In 2004, ZELRI acquired a further 40% equity interest in Times Monitor, a then 60%-owned subsidiary of ZELRI, at a consideration of RMB16,000,000. Times Monitor is principally engaged in the manufacture and sale of train operation safety equipment. Upon the completion of the acquisition, Times Monitors was deregistered on 30 September 2004 and its assets, liabilities and businesses were transferred to the Company as part of the Relevant Businesses by ZELRI pursuant to the Reorganisation. The excess of ZELRI's additional interest in the carrying value of net assets of Times Monitor acquired over the cost of acquisition of RMB4,614,000 is included in the Financial Information and credited to the Group's consolidated results for the year ended 31 December 2004.

In 2004, ZELRI acquired a further 1.67% equity interest in Times PCB, a then 98.33%-owned subsidiary of ZELRI, at a consideration of approximately RMB598,000. Times PCB is principally engaged in the manufacture and sale of printed circuits and low inductant busbar products. Upon the completion of the acquisition, Times PCB was deregistered on 30 September 2004 and its assets, liabilities and businesses were transferred to the Company as part of the Relevant Businesses by ZELRI pursuant to the Reorganisation. The excess of ZELRI's additional interest in the carrying value of net assets of Times PCB acquired over the cost of acquisition of RMB30,000 is included in the Financial Information and credited to the Group's consolidated results for the year ended 31 December 2004.

During the six-month period ended 30 June 2006, the Company acquired a further 10% equity interest in Times Electronics, a then 90%-owned subsidiary of the Company, at a consideration of approximately RMB9,150,000. In addition, the Company agreed that the seller is entitled to a 10% of the net profit of Times Electronics for the six months ended 30 June 2006, which amounted to RMB4,005,000. The excess of the Group's additional interest in the carrying value of net assets of Times Electronics acquired over the cost of acquisition attributable to the Group (includes net profit of Times Electronics of RMB4,005,000 entitled by the seller) of RMB7,414,000 is credited to the Group's consolidated results for the six-month period ended 30 June 2006.

(iv) Value-added tax refund received are as follows:

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Value-added tax refund	5,125	7,086	6,969	4,148	9,464

Sales of the Group are generally subject to value-added tax ("VAT") at a rate of 17%. Pursuant to the "Notice on the Taxation Policy Issues relating to Encouraging the Development of the Software Industry and Integrated Circuit Industry" issued by State Administration of Taxation and General Administration of Custom, the Group is entitled to a refund of VAT paid in excess of 3% in respect of sales of certain products during the Relevant Periods.

(b) **Profit from operating activities**

Profit from operating activities is arrived at after charging/(crediting):

		The Group				
		Year ended 31 December			Six-month period ended 30 June	
	Section	2003	2004	2005	2005	2006
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Cost of inventories sold		388,372	464,696	542,314	286,831	326,466
Staff costs (including directors' and supervisors' emoluments)	4(g)	80,103	89,174	117,888	53,935	64,284
Auditors' remuneration		434	491	159	111	234
Depreciation of items of property, plant and equipment		29,974	31,260	25,335	12,842	15,844
Amortisation of lease prepayments		—	93	564	280	133
Amortisation of intangible assets		1,131	1,897	2,345	1,321	841
Minimum lease payments under operating leases in respect of:						
Land and buildings		—	—	127	63	63
Plant and equipment		—	3,032	9,000	4,512	4,512

		The Group				
		Year ended 31 December			Six-month period ended 30 June	
	Section	2003	2004	2005	2005	2006
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Provision for obsolete inventories,		3,645	12,352	11,883	6,304	5,552
Exchange losses/(gains), net		4,440	(1,916)	(4,212)	(3,189)	(309)
Research and development costs		57,767	57,695	52,388	31,406	43,328
Less: staff cost included above		(20,527)	(21,100)	(25,904)	(13,333)	(16,409)
depreciation and amortisation included above		(10,669)	(11,892)	(4,675)	(1,598)	(1,948)
Research and development costs net of staff cost, depreciation and amortisation		26,571	24,703	21,809	16,475	24,971
Losses/(gains) on disposal of items of property, plant and equipment, net		(470)	(1,833)	199	13	54
Impairment of items of property, plant and equipment, net		2,234	75	—	—	—
Provision/(write-back of provision) for doubtful debts on trade and other receivables, net		817	2,596	4,318	(851)	7,482
Write-off of an available-for- sale financial asset		—	—	—	—	306
Provision for warranties		20,144	27,184	32,403	14,946	16,582
Interest income		(3,325)	(2,343)	(1,238)	(885)	(296)
Dividend income		(150)	—	—	—	—
Gross rental income		(928)	(837)	—	—	(1,189)

(c) **Finance costs**

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Interest paid on bank loans and other loans wholly repayable within five years	8,075	10,800	13,819	6,336	7,320

(d) **Directors' and supervisors' emoluments**

Details of the directors' and supervisors' remunerations are as follows:

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Fees	—	—	—	—	—
Other emoluments:					
Salaries, allowances and benefits in kind	379	415	682	247	670
Bonuses	844	1,452	1,617	810	870
Pension scheme contributions	30	30	30	15	20
	1,253	1,897	2,329	1,072	1,560

The names of the directors and supervisors of the Company and their remunerations for the Relevant Periods are as follows:

Year ended 31 December 2003

	Fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Liao Bin	—	71	205	6	282
Tian Lei	—	92	303	6	401
Ding Rongjun	—	71	197	6	274
Non-executive director:					
Ma Yunkun	—	—	—	—	—
Independent non-executive directors:					
Chan Kam Wing, Clement	—	—	—	—	—
Pao Ping Wing	—	—	—	—	—
Tan Xiao'ao	—	—	—	—	—
	—	234	705	18	957
Supervisors:					
Jiang Yi	—	65	43	6	114
Pang Yiming	—	80	96	6	182
Zhang Liqiang	—	—	—	—	—
He Hongqu	—	—	—	—	—
Liu Chunru	—	—	—	—	—
	—	145	139	12	296
Total	—	379	844	30	1,253

Year ended 31 December 2004

	Fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Liao Bin	—	86	404	6	496
Tian Lei	—	95	467	6	568
Ding Rongjun	—	74	314	6	394
Non-executive director:					
Ma Yunkun	—	—	—	—	—
Independent non-executive directors:					
Chan Kam Wing, Clement	—	—	—	—	—
Pao Ping Wing	—	—	—	—	—
Tan Xiao'ao	—	—	—	—	—
	—	255	1,185	18	1,458
Supervisors:					
Jiang Yi	—	86	118	6	210
Pang Yiming	—	74	149	6	229
Zhang Liqiang	—	—	—	—	—
He Hongqu	—	—	—	—	—
Liu Chunru	—	—	—	—	—
	—	160	267	12	439
Total	—	415	1,452	30	1,897

Year ended 31 December 2005

	Fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Liao Bin	—	122	501	6	629
Tian Lei	—	116	475	6	597
Ding Rongjun	—	91	339	6	436
Non-executive director:					
Ma Yunkun	—	14	—	—	14
Independent non-executive directors:					
Chan Kam Wing, Clement	—	35	—	—	35
Pao Ping Wing	—	33	—	—	33
Tan Xiao'ao	—	—	—	—	—
	—	411	1,315	18	1,744
Supervisors:					
Jiang Yi	—	104	153	6	263
Pang Yiming	—	122	149	6	277
Zhang Liqiang	—	11	—	—	11
He Hongqu	—	17	—	—	17
Liu Chunru	—	17	—	—	17
	—	271	302	12	585
Total	—	682	1,617	30	2,329

Six-month period ended 30 June 2005 (unaudited)

	Fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Liao Bin	—	50	251	3	304
Tian Lei	—	50	238	3	291
Ding Rongjun	—	38	170	3	211
Non-executive director:					
Ma Yunkun	—	—	—	—	—
Independent non-executive directors:					
Chan Kam Wing, Clement	—	—	—	—	—
Pao Ping Wing	—	—	—	—	—
Tan Xiao'ao	—	—	—	—	—
	—	138	659	9	806
Supervisors:					
Jiang Yi	—	50	77	3	130
Pang Yiming	—	59	74	3	136
Zhang Liqiang	—	—	—	—	—
He Hongqu	—	—	—	—	—
Liu Chunru	—	—	—	—	—
	—	109	151	6	266
Total	—	247	810	15	1,072

Six-month period ended 30 June 2006

	Fees	Salaries, allowances and benefits in kind	Bonuses	Pension scheme contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Executive directors:					
Liao Bin	—	106	250	4	360
Tian Lei	—	94	250	4	348
Ding Rongjun	—	67	204	4	275
Non-executive director:					
Ma Yunkun	—	28	—	—	28
Independent non-executive directors:					
Chan Kam Wing, Clement	—	70	—	—	70
Pao Ping Wing	—	69	—	—	69
Tan Xiao'ao	—	—	—	—	—
	—	434	704	12	1,150
Supervisors:					
Jiang Yi	—	82	74	4	160
Pang Yiming	—	64	92	4	160
Zhang Liqiang	—	22	—	—	22
He Hongqu	—	34	—	—	34
Liu Chunru	—	34	—	—	34
	—	236	166	8	410
Total	—	670	870	20	1,560

Subsequent to 30 June 2006, Liao Bin and Tian Lei were changed into non-executive directors in November 2006. Further, Lu Penghu, Gao Yucai and Zhou Heliang were appointed as directors of the Company in November 2006 and the remunerations of Lu Penghu, Gao Yucai and Zhou Heliang have not been disclosed in the above tables.

The five highest paid employees of the Group during the Relevant Periods are as follows:

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
Directors and supervisors	3	3	3	3	3
Non-director and non-supervisor employees	2	2	2	2	2
	5	5	5	5	5

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

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'00*
Salaries, allowances and benefits in kind	157	158	198	99	154
Bonuses	301	574	506	253	236
Pension scheme contributions	12	12	13	6	8
	470	744	717	358	398

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

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
				(unaudited)	
Nil to HK$1,000,000	2	2	2	2	2

During the Relevant Periods, no emoluments were paid by the Group to any of the persons who are directors of the Company, or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company waived or agreed to waive any emoluments during the Relevant Periods.

(e) **Income tax expense**

The Group is subject to income tax on an entity basis on the profits arising in or derived from jurisdictions in which members of the Group are domiciled and operate.

PRC corporate income tax ("CIT") has been provided based on the taxable income as reported in the statutory accounts of the relevant companies comprising the Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purpose, and the income tax rates of such companies are as follows:

(i) Pursuant to the approvals of relevant tax authorities, ZELRI, as a scientific research reorganisation enterprise, is exempted from PRC enterprise income tax from 1 October 2000 to 30 September 2007. Therefore, no PRC income tax was provided for the profits arising from the Relevant Businesses operated by ZELRI which is included in the Financial Information for the period prior to the establishment of the Company on 26 September 2005.

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

(ii) Times Electronics and Times Guangchuang are enterprises established in Zhuzhou Hi-technology Development Zone and are subject to PRC enterprise income tax at a rate of 15%.

In December 2004, Times Electronics was designated as a software development enterprise by relevant government authorities and it is entitled to a reduced tax rate of 10% for the year ended 31 December 2004 by local tax authorities. In addition, Times Electronics is entitled to an exemption from PRC corporate income tax up to 31 December 2006 commencing from 1 April 2005. Times Electronics is subject to a tax rate of 15% for the three-month period ended 31 March 2005.

Accordingly, the PRC income tax of Times Electronics was provided at the reduced rate of 10% and 15% for the year ended 31 December 2004 and the three-month period ended 31 March 2005, respectively, and thereafter, no provision for income tax of Times Electronics was made during the Relevant Periods.

As approved by the local tax authorities, Times Guangchuang, as a software development enterprise, is entitled to a 50% reduction of PRC enterprise income tax for the three years starting from 1 January 2004. Accordingly, PRC corporate income tax of Times Guangchuang for the years ended 31 December 2004 and 2005 together with the six-month period ended 30 June 2005 and 2006 were provided at a reduced rate of 7.5%.

(iii) As approved by the relevant tax authorities, Times PCB and Times Monitor are entitled to the same tax preferential policy as that of ZELRI, and thus no PRC income tax was provided for such companies prior to their deregistrations.

(iv) As approved by the relevant tax authorities, Ningbo Company, as a scientific research reorganisation enterprise, is exempted from PRC enterprise income tax from 2002 to 2005. In addition, pursuant to relevant tax regulations and the approval from the relevant tax authorities, the PRC income tax exemption granted to Ningbo Company is further extended to the years ending 31 December 2006 and 2007. Therefore, no provision for PRC income tax of Ningbo Company was made during the Relevant Periods.

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

	The Group				
	Year ended 31 December			**Six-month period ended 30 June**	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Current taxation					
— PRC corporate income tax	—	2,626	639	607	244

A reconciliation of income tax exposure applicable to profit before tax at the statutory income tax rate in the PRC to income tax exposure at the Group's effective income tax rate for each of the Relevant Periods were as follows:

	The Group									
	Year ended 31 December						Six-month period ended 30 June			
	2003		2004		2005		2005		2006	
	RMB'000	*%*	*RMB'000*	*%*	*RMB'000*	*%*	*RMB'000* *(unaudited)*	*%*	*RMB'000*	*%*
Profit from operating activities before tax and minority interests	96,412		185,047		218,556		136,617		158,541	
Standard tax rate applied to profit before tax	31,816	33.0	61,066	33.0	72,123	33.0	45,084	33.0	52,319	33.0
Reconciling items:										
Expenses not deductible for income tax purposes	—	—	—	—	1,640	0.7	723	0.5	3,072	1.9
Income not subject to income tax	—	—	(2,040)	(1.1)	(1,110)	(0.5)	(75)	(0.1)	(3,789)	(2.4)
Effect of tax incentive	—	—	(3,330)	(1.8)	(78)	—	(79)	(0.1)	(889)	(0.5)
Tax exemptions	(31,816)	(33.0)	(53,070)	(28.7)	(71,936)	(32.9)	(45,046)	(32.9)	(50,469)	(31.8)
Total tax charge for the year/period	—	—	2,626	1.4	639	0.3	607	0.4	244	0.2

No income tax has been recognised for Times Electric, USA LLC since it sustained losses during the Relevant Periods.

(f) **Earnings per share**

The calculation of basic earnings per share is based on:

	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Earnings:					
Profit for the year attributable to equity holders of the Company	98,530	162,680	211,733	132,358	153,274
Shares:					
Weighted average number of domestic shares in issue during the Relevant Periods used in the basic earnings per share calculation	629,811,637	629,811,637	640,388,623	629,811,637	669,611,637

The Company's weighted average number of domestic shares in issue during the Relevant Periods used in the basic earnings per share calculation is determined on the assumption that the 629,811,637 domestic share of RMB1 each issued as a result of the Reorganisation had been in issue throughout the Relevant Periods and as adjusted to add the 39,800,000 domestic shares of RMB1 each issued to the Other Promoters upon the incorporation of the Company on 26 September 2005. Further details of the Reorganisation are set out in Section 1.

No diluted earnings per share have been disclosed as no diluting events existed during the Relevant Periods.

(g) **Staff costs**

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Wages, salaries and bonus	58,504	65,238	93,872	43,342	49,828
Contribution to government-operated pension scheme	4,563	6,790	6,734	3,340	3,962
Contribution to supplementary pension scheme	2,662	2,171	—	—	—
Contribution to pension annuity plan	—	—	—	—	2,000
Welfare and other expenses	14,374	14,975	17,282	7,253	8,494
	80,103	89,174	117,888	53,935	64,284

The Group has terminated the contribution payments to the supplementary pension scheme in accordance with its revised internal policy during the year ended 31 December 2005.

In 2006, the Group implemented a new pension annuity plan to replace the previous supplementary pension scheme, and pursuant to the new pension annuity plan, the Group is required to contribute a fixed percentage of salaries to the annuity plan, and the Group has no further payment obligation to the pension annuity plan once the contributions have been made.

(h) **Dividends**

	The Group and the Company				
	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Pre-incorporation profit distribution (i)	—	51,476	119,852	109,343	—
Special dividend (ii)	—	—	—	—	167,538
	—	51,476	119,852	109,343	167,538

(i) In accordance with the "Provisional Regulation Relating to Corporate Reorganisation of Enterprises and Related Management of state-owned Capital and Financial Treatment" notice issued by the Ministry of Finance (財政部關於印發《企業公司制改建有關國有資本管理與財務處理的暫行規定》的通知), the Company is required to make a distribution to ZELRI which represents an amount equal to the net profit attributable to shareholders, as determined based on PRC GAAP, generated during the period from 30 September 2004 (effective date of Reorganisation) to 26 September 2005 (the date of incorporation of the Company) by the Relevant Businesses to ZELRI. Accordingly, pre-incorporation profits of RMB51,476,000, RMB109,343,000 and RMB 119,852,000 (inclusive of RMB109,343,000 distributed to ZELRI for the six-month period ended 30 June 2005) should be distributed to ZELRI during the year ended 31 December 2004, six-month period ended 30 June 2005 and year ended 31 December 2005, respectively. Such distributions of pre-incorporation profit were fully settled in June 2006.

(ii) In November 2006, the Directors proposed to declare a special dividend amounting to RMB167,538,000 to its shareholders. This was approved in the shareholders' meeting in November 2006. As the dividend was declared after the last balance sheet date of 30 June 2006, it has not been recognised as a liability as at 30 June 2006. Such special dividend has subsequently been fully settled. Further details are set out in Section 12 below.

(i) **Related party transactions**

(i) During the Relevant Periods, in addition to those disclosed in Sections 5(h), 5(j), 5(l), 5(n) and 5(p), the Group had the following material transactions with related parties:

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Transactions with CSR and its subsidiaries:					
Sale of goods	205,271	244,216	255,651	173,043	151,530
Purchases of materials and components	34,782	64,584	91,300	58,777	64,685
Management fee and research and development fee paid*	2,070	3,400	—	—	—
Purchases of property, plant and machinery*	1,909	2,711	—	—	—
Purchases of electricity*	1,347	1,656	4,771	2,436	—
Fees paid for usage of property, plant and machinery	—	3,032	9,127	4,575	4,575
Supporting service fee	3,798	4,440	6,478	2,020	2,895
Rental income from items of property, plant and machinery	—	—	—	—	1,189
Transactions with associates:					
Sale of goods	76,574	24,912	—	—	—
Purchases of materials and components	69,330	54,885	—	—	—

In the opinion of the directors, the above transactions arise from the ordinary course of the Group's business and were conducted in accordance with mutually agreed terms.

* The directors of the Group confirmed that these transactions noted with * above will be discontinued after the listing of the Company's shares on the Stock Exchange of Hong Kong Limited. Save for such transactions, the directors of the Company confirmed that other transactions disclosed above will continue after the listing of the Company's shares on the Stock Exchange of Hong Kong Limited.

Transactions with associates included transactions with the following associates which became subsidiaries of the Group in September 2004:

	The Group		
	Year ended 31 December		
	2003	2004	2005
	RMB'000	*RMB'000*	*RMB'000*
Sale of goods:			
Times Electronics	33,797	4,938	—
Times Fittings	38,367	16,457	—
Zhuzhou Jierui	1,546	407	—
Times Guangchuang	2,864	3,110	—
	76,574	24,912	—
Purchases of materials and components:			
Times Electronics	63,638	40,914	—
Times Fittings	5,692	13,971	—
	69,330	54,885	—

In October 2004 and thereafter, transactions with Times Electronics, Times Fittings, Zhuzhou Jierui and Times Guangchuang have not been disclosed in this report since they are eliminated in the preparation of the Group's financial statements.

(ii) Pursuant to the Reorganisation, the Company acquired equity interests of 1.43%, 2.14% and 1.43% in Zhuzhou Jierui from certain directors, namely, Liao Bin, Tian Lei and Ding Rongjun for considerations of RMB250,000, RMB375,000 and RMB250,000 respectively during the year ended 31 December 2004. Further, the Company acquired a 3.08% equity interest in Times Fittings from Tian Lei for a consideration of RMB276,900 during the year ended 31 December 2004.

(iii) Compensation of key management personnel of the Company:

	The Group				
	Year ended 31 December			Six-month period ended 30 June	
	2003	**2004**	**2005**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Short term employee benefits	1,223	1,867	2,299	1,057	1,540
Post-employment benefits	30	30	30	15	20
Total compensation paid to key management personnel	1,253	1,897	2,329	1,072	1,560

Further details of directors' and supervisors' emoluments are included in Section 4(d) to this report.

(iv) Transactions with other state-controlled enterprises in the PRC

The Group operates in an economic environment predominated by enterprises directly or indirectly controlled by the PRC government through its numerous authorities, affiliates or other organisations (collectively "Stated-controlled Enterprises"). During the Relevant Periods, apart from CSR and its subsidiaries, the Group had transactions with other Stated-controlled Enterprises including, but not limited to, sales of goods and purchases of materials and components. The directors consider that transactions with such other State-controlled Enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and such other State-controlled Enterprises are ultimately controlled or owned by the PRC government. The Group has also established pricing policies for its products and services, and such pricing policies do not depend on whether or not the customers are State-controlled Enterprises. Having due regard to the substance of the relationships, the directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure.

5. CONSOLIDATED BALANCE SHEETS OF THE GROUP AND BALANCE SHEETS OF THE COMPANY

		The Group				The Company	
		As at 31 December			As at 30 June	As at 31 December	As at 30 June
	Notes	2003	2004	2005	2006	2005	2006
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS							
Property, plant and equipment	(a)	319,642	231,818	303,003	326,416	231,034	243,099
Lease prepayments	(b)	—	22,098	21,840	33,215	8,970	8,879
Intangible assets	(c)	17,446	15,749	14,128	13,764	13,638	12,890
Investments in subsidiaries	(d)	—	—	—	—	112,298	127,067
Interests in associates	(e)	49,133	980	980	980	—	—
Available-for-sale financial assets	(f)	100	1,606	1,606	1,300	—	—
		386,321	272,251	341,557	375,675	365,940	391,935
CURRENT ASSETS							
Inventories	(g)	163,397	182,599	223,878	287,082	139,812	176,570
Trade receivables	(h)	338,437	501,517	509,419	569,571	386,992	485,899
Notes receivable	(i)	36,403	33,148	59,037	122,016	34,193	72,396
Prepayments, deposits and other receivables	(j)	53,381	128,325	182,380	59,313	185,569	145,256
Pledged deposits	(k)	—	—	—	2,365	—	1,154
Cash and cash equivalents	(k)	83,494	171,284	165,126	117,495	122,486	82,690
		675,112	1,016,873	1,139,840	1,157,842	869,052	963,965
CURRENT LIABILITIES							
Trade payables	(l)	150,818	261,005	190,895	262,685	164,581	260,653
Notes payable	(m)	3,800	7,865	17,280	62,258	17,280	52,868
Other payables and accruals	(n)	113,321	174,666	161,249	202,758	107,069	166,288
Provision for warranties	(o)	14,742	23,377	31,898	41,015	22,115	31,678
Interest-bearing bank and other borrowings	(p)	180,802	238,499	252,521	171,046	242,521	166,046
Dividend payable		—	51,476	171,328	7,935	171,328	—
Tax payable		1,760	13,594	19	—	—	—
		465,243	770,482	825,190	747,697	724,894	677,533
NET CURRENT ASSETS		209,869	246,391	314,650	410,145	144,158	286,432
TOTAL ASSETS LESS CURRENT LIABILITIES		596,190	518,642	656,207	785,820	510,098	678,367
EQUITY							
Equity attributable to equity holders of the Company	Section 6	589,825	498,485	630,166	783,440	510,098	678,367
Minority interests	Section 6	6,365	20,157	26,041	2,380	—	—
TOTAL EQUITY		596,190	518,642	656,207	785,820	510,098	678,367

Notes:

(a) **Property, plant and equipment**

The Group

	Buildings	Plant, machinery and equipment	Computer equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003:					
Cost	155,941	146,652	44,545	34,919	382,057
Accumulated depreciation and impairment	(48,184)	(38,548)	(23,570)	—	(110,302)
Net carrying amount	107,757	108,104	20,975	34,919	271,755
At 1 January 2003, net of accumulated depreciation and impairment	107,757	108,104	20,975	34,919	271,755
Additions	1,015	20,970	7,637	54,781	84,403
Transfer (from)/to	24,258	22,954	67	(47,279)	—
Disposals	(301)	(157)	(719)	(3,131)	(4,308)
Impairment	—	(80)	(2,154)	—	(2,234)
Depreciation provided during the year	(9,411)	(14,941)	(5,622)	—	(29,974)
At 31 December 2003, net of accumulated depreciation and impairment	123,318	136,850	20,184	39,290	319,642
At 31 December 2003 and at 1 January 2004:					
Cost	173,507	179,721	40,897	39,290	433,415
Accumulated depreciation and impairment	(50,189)	(42,871)	(20,713)	—	(113,773)
Net carrying amount	123,318	136,850	20,184	39,290	319,642
At 1 January 2004, net of accumulated depreciation and impairment	123,318	136,850	20,184	39,290	319,642
Additions	2,922	10,362	4,349	45,843	63,476
Transfer (from)/to	280	2,037	—	(2,317)	—
Acquisition of subsidiaries *(Section 7(a))*	34,692	8,162	2,349	—	45,203
Distribution to owner *(Section 7(d)(i))*	(66,187)	(41,170)	(7,811)	(39,617)	(154,785)
Disposals	(224)	(8,586)	(1,505)	(68)	(10,383)
Impairment	—	(75)	—	—	(75)
Depreciation provided during the year	(9,244)	(17,249)	(4,767)	—	(31,260)
At 31 December 2004, net of accumulated depreciation and impairment	85,557	90,331	12,799	43,131	231,818
At 31 December 2004 and at 1 January 2005:					
Cost	124,536	137,238	23,745	43,131	328,650
Accumulated depreciation and impairment	(38,979)	(46,907)	(10,946)	—	(96,832)
Net carrying amount	85,557	90,331	12,799	43,131	231,818

	Buildings	Plant, machinery and equipment	Computer equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005, net of accumulated depreciation and impairment	85,557	90,331	12,799	43,131	231,818
Additions	11,690	12,304	15,080	61,322	100,396
Transfer (from)/to	64,411	3,335	222	(67,968)	—
Disposals	(344)	(919)	(2,109)	(504)	(3,876)
Depreciation provided during the year	(7,000)	(14,095)	(4,240)	—	(25,335)
At 31 December 2005, net of accumulated depreciation and impairment	154,314	90,956	21,752	35,981	303,003
At 31 December 2005 and at 1 January 2006:					
Cost	200,122	151,712	36,025	35,981	423,840
Accumulated depreciation and impairment	(45,808)	(60,756)	(14,273)	—	(120,837)
Net carrying amount	154,314	90,956	21,752	35,981	303,003
At 1 January 2006, net of accumulated depreciation and impairment	154,314	90,956	21,752	35,981	303,003
Reclassification	(4)	(2,886)	2,890	—	—
Additions	—	5,892	12,241	22,204	40,337
Transfer (from)/to	—	175	—	(175)	—
Disposals	(6)	(3)	(421)	(650)	(1,080)
Depreciation provided during the period	(5,016)	(6,726)	(4,102)	—	(15,844)
At 30 June 2006, net of accumulated depreciation and impairment	149,288	87,408	32,360	57,360	326,416
At 30 June 2006:					
Cost	199,584	148,031	57,329	57,360	462,304
Accumulated depreciation and impairment	(50,296)	(60,623)	(24,969)	—	(135,888)
Net carrying amount	149,288	87,408	32,360	57,360	326,416

The Company

	Buildings	Plant, machinery and equipment	Computer equipment and other	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Transferred from ZELRI in connection with the Reorganisation	51,956	76,270	6,482	41,613	176,321
Additions	10,907	8,915	15,080	41,153	76,055
Transfer (from)/to	64,411	3,335	222	(67,968)	—
Disposals	—	(780)	(685)	—	(1,465)
Depreciation provided during the year	(4,899)	(11,391)	(3,587)	—	(19,877)
At 31 December 2005, net of accumulated depreciation and impairment	122,375	76,349	17,512	14,798	231,034
At 31 December 2005 and at 1 January 2006:					
Cost	154,132	132,618	28,799	14,798	330,347
Accumulated depreciation and impairment	(31,757)	(56,269)	(11,287)	—	(99,313)
Net carrying amount	122,375	76,349	17,512	14,798	231,034
At 1 January 2006, net of accumulated depreciation and impairment	122,375	76,349	17,512	14,798	231,034
Reclassification	—	(236)	236	—	—
Additions	—	4,576	10,183	11,181	25,940
Disposals	(6)	(3)	(90)	(650)	(749)
Depreciation provided during the period	(3,952)	(6,117)	(3,057)	—	(13,126)
At 30 June 2006, net of accumulated depreciation and impairment	118,417	74,569	24,784	25,329	243,099
At 30 June 2006:					
Cost	154,109	134,116	41,285	25,329	354,839
Accumulated depreciation and impairment	(35,692)	(59,547)	(16,501)	—	(111,740)
Net carrying amount	118,417	74,569	24,784	25,329	243,099

(b) **Lease prepayments**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period	—	—	22,098	21,840	—	8,970
Additions	—	12,726	306	11,508	306	—
Acquisition of subsidiaries *(Section 7(a))*	—	9,465	—	—	—	—
Transferred from ZELRI in connection with the Reorganisation	—	—	—	—	8,841	—
Amortisation provided during the year/period	—	(93)	(564)	(133)	(177)	(91)
Carrying amount at end of year/period	—	22,098	21,840	33,215	8,970	8,879

(c) **Intangible assets**

The Group

	Patents and technical know-how	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2003:			
Cost	6,228	50	6,278
Accumulated amortisation	(208)	(18)	(226)
Net carrying amount	6,020	32	6,052
Cost at 1 January 2003, net of accumulated amortisation	6,020	32	6,052
Additions	9,872	2,653	12,525
Amortisation provided during the year	(1,086)	(45)	(1,131)
At 31 December 2003	14,806	2,640	17,446
At 31 December 2003 and at 1 January 2004:			
Cost	16,100	2,703	18,803
Accumulated amortisation	(1,294)	(63)	(1,357)
Net carrying amount	14,806	2,640	17,446
Cost at 1 January 2004, net of accumulated amortisation	14,806	2,640	17,446
Additions	—	200	200
Amortisation provided during the year	(1,610)	(287)	(1,897)
At 31 December 2004	13,196	2,553	15,749
At 31 December 2004 and at 1 January 2005:			
Cost	16,100	2,903	19,003
Accumulated amortisation	(2,904)	(350)	(3,254)
Net carrying amount	13,196	2,553	15,749
Cost at 1 January 2005, net of accumulated amortisation	13,196	2,553	15,749
Additions	—	724	724
Amortisation provided during the year	(2,013)	(332)	(2,345)
At 31 December 2005	11,183	2,945	14,128
At 31 December 2005 and at 1 January 2006:			
Cost	16,100	3,627	19,727
Accumulated amortisation	(4,917)	(682)	(5,599)
Net carrying amount	11,183	2,945	14,128
Cost at 1 January 2006, net of accumulated amortisation	11,183	2,945	14,128
Additions	—	477	477
Amortisation provided during the period	(402)	(439)	(841)
At 30 June 2006	10,781	2,983	13,764
At 30 June 2006:			
Cost	16,100	4,104	20,204
Accumulated amortisation	(5,319)	(1,121)	(6,440)
Net carrying amount	10,781	2,983	13,764

The Company

	Patents and technical know-how	Computer software	Total
	RMB'000	*RMB'000*	*RMB'000*
Transferred from ZELRI in connection with the Reorganisation	13,196	2,553	15,749
Additions	—	220	220
Amortisation provided during the year	(2,013)	(318)	(2,331)
At 31 December 2005	11,183	2,455	13,638
At 31 December 2005 and at 1 January 2006:			
Cost	16,100	3,123	19,223
Accumulated amortisation	(4,917)	(668)	(5,585)
Net carrying amount	11,183	2,455	13,638
Cost at 1 January 2006, net of accumulated amortisation	11,183	2,455	13,638
Amortisation provided during the period	(402)	(346)	(748)
At 30 June 2006	10,781	2,109	12,890
At 30 June 2006:			
Cost	16,100	3,123	19,223
Accumulated amortisation	(5,319)	(1,014)	(6,333)
Net carrying amount	10,781	2,109	12,890

(d) **Investments in subsidiaries**

	The Company	
	As at 31 December 2005	As at 30 June 2006
	RMB'000	*RMB'000*
Unlisted investments, at cost	112,298	127,067

Particulars of the subsidiaries of the Group as at the date of this report are set out in Section 1.

(e) **Interests in associates**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Share of net assets of associates:						
Times Electronics	42,599	—	—	—	—	—
Zhuzhou Jierui	5,934	—	—	—	—	—
Times Fittings	600	—	—	—	—	—
Zhuzhou Times Hi-Technology Property Management Co., Ltd.	—	980	980	980	—	—
	49,133	980	980	980	—	—

At 31 December 2003, ZELRI owned equity interests of 30%, 25.71% and 20% in Times Electronics, Zhuzhou Jierui and Times Fittings respectively and such equity interests comprised part of the Relevant Businesses which were dealt with as interests in associates in the Financial Information. As mentioned in Section 4(a)(ii) above, Times Electronics became a subsidiary of the Group, and Zhuzhou Jierui and Times Fittings became business divisions of the Group in September 2004.

Particulars of the Group's associate as at the date of this report are set out in Section 1 above.

The aggregate amounts of the assets, liabilities, revenue of the associates attributable to the Group are as follows:

	The Group				
	As at 31 December			As at 30 June	As at 30 June
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Total assets	93,358	1,010	1,083	1,044	1,247
Total liabilities	(44,225)	(30)	(103)	(64)	(267)
Net assets	49,133	980	980	980	980

	Year ended 31 December			Six-month period ended 30 June	
	2003	2004	2005	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (unaudited)	*RMB'000*
Total revenue	55,989	55,773	222	43	168
Net profit attributable to equity holders of the Company	17,878	8,256	—	—	—

(f) **Available-for-sale financial assets**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At cost:						
Unlisted equity investments	100	1,606	1,606	1,300	—	—

(g) **Inventories**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	56,754	104,498	140,983	172,131	68,320	81,933
Work in progress	22,790	47,002	43,144	48,041	28,812	31,964
Finished goods	89,276	59,313	79,966	111,436	74,285	94,100
Consumables and packing materials	127	278	160	555	160	555
	168,947	211,091	264,253	332,163	171,577	208,552
Less: Provision for obsolete inventories	(5,550)	(28,492)	(40,375)	(45,081)	(31,765)	(31,982)
	163,397	182,599	223,878	287,082	139,812	176,570

(h) **Trade receivables**

The Group generally stipulates payment upon delivery in sales contracts entered into with customers. However, in the opinion of the directors, the Group has effectively granted an average credit period of around six months to its customers after taking into account the practice of the industry in which the Group conducted its businesses.

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade receivables from:						
CSR and its subsidiaries (other than the Group)	119,584	126,262	133,555	103,712	118,705	96,879
subsidiaries	—	—	—	—	2,417	7,218
an associate	2,594	—	—	—	—	—
third parties	229,973	394,848	394,160	491,637	279,982	398,548
	352,151	521,110	527,715	595,349	401,104	502,645
Less: Provision for impairment of receivables	(13,714)	(19,593)	(18,296)	(25,778)	(14,112)	(16,746)
	338,437	501,517	509,419	569,571	386,992	485,899

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

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	333,100	487,398	480,199	543,802	367,367	467,560
Over 1 year but within 2 years	8,435	21,749	30,485	25,737	21,086	15,130
Over 2 years but within 3 years	6,568	4,406	12,111	18,109	8,947	14,873
Over 3 years	4,048	7,557	4,920	7,701	3,704	5,082
	352,151	521,110	527,715	595,349	401,104	502,645
Less: Provision for impairment of receivables	(13,714)	(19,593)	(18,296)	(25,778)	(14,112)	(16,746)
	338,437	501,517	509,419	569,571	386,992	485,899

(i) **Notes receivable**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	7,750	11,998	20,425	12,342	18,001	2,322
Over 3 months but within 6 months	28,653	21,150	38,612	109,674	16,192	70,074
	36,403	33,148	59,037	122,016	34,193	72,396

(j) **Prepayments, deposits and other receivables**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Prepayments, deposits and other receivables:						
CSR and its subsidiaries (other than the Group)	1,678	79,393	149,139	7,953	148,573	7,553
subsidiaries	—	—	—	—	11,724	99,248
third parties	51,751	49,103	33,381	51,360	25,272	38,455
	53,429	128,496	182,520	59,313	185,569	145,256
Less: Provision for impairment of receivables	(48)	(171)	(140)	—	—	—
	53,381	128,325	182,380	59,313	185,569	145,256

Prepayments, deposits and other receivables as at 30 June 2006 included non-trade balances due from CSR and its subsidiaries (other than the Group) of an aggregate amount of RMB3,087,000, and such non-trade balances were fully settled subsequent to 30 June 2006.

(k) **Cash and cash equivalents**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Cash and bank balances	83,494	171,284	165,126	119,860	122,486	83,844
Less: Pledged deposits against trade finance facilities	—	—	—	(2,365)	—	(1,154)
Cash and cash equivalents	83,494	171,284	165,126	117,495	122,486	82,690

The carrying value of cash and cash equivalents approximate to their fair values.

(l) **Trade payables**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Trade payables to:						
CSR and its subsidiaries (other than the Group)	17,767	42,171	23,481	39,530	8,293	22,236
subsidiaries	—	—	—	—	30,198	77,150
associates	5,802	—	—	—	—	—
third parties	127,249	218,834	167,414	223,155	126,090	161,267
	150,818	261,005	190,895	262,685	164,581	260,653

The normal credit period for trade payable is three months.

An age analysis of trade payables is as follows:

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	121,281	221,052	153,039	219,101	135,653	228,276
Over 3 months but within 1 year	25,588	35,411	33,875	41,099	26,064	31,479
Over 1 year but within 2 years	3,312	3,282	3,199	1,924	2,728	456
Over 2 years but within 3 years	117	621	203	509	136	414
Over 3 years	520	639	579	52	—	28
	150,818	261,005	190,895	262,685	164,581	260,653

(m) **Notes payable**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	3,800	6,365	14,580	20,578	14,580	17,388
Over 3 months but within 6 months	—	1,500	2,700	41,680	2,700	35,480
	3,800	7,865	17,280	62,258	17,280	52,868

(n) **Other payables and accruals**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Receipts in advance	46,590	32,021	56,500	49,995	36,016	45,735
Other payables	64,053	131,041	67,839	97,387	42,811	72,663
Accruals	1,589	—	6,079	4,162	4,891	4,139
Amounts due to CSR and its subsidiaries (other than the Group)	1,089	11,604	30,831	51,214	23,351	43,751
	113,321	174,666	161,249	202,758	107,069	166,288

Other payables and accruals as at 30 June 2006 included non-trade balances due to CSR and its subsidiaries (other than the Group) of an aggregate amount of RMB7,611,000, and such non-trade balances were fully settled subsequent to 30 June 2006.

(o) **Provision for warranties**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	**2004**	**2005**	**2006**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	10,949	14,742	23,377	31,898	14,694	22,115
Acquisition of subsidiaries *(Section 7(a))*	—	6,961	—	—	—	—
Provision made during the year/period	20,144	27,184	32,403	16,582	24,488	15,105
Amounts utilised	(16,351)	(25,510)	(23,882)	(7,465)	(17,067)	(5,542)
At end of year/period	14,742	23,377	31,898	41,015	22,115	31,678

The Group generally provides one to three year warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

(p) **Interest-bearing bank and other borrowings**

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	**2004**	**2005**	**2006**	**2005**	**2006**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans:						
Secured	30,309	—	10,000	8,000	10,000	8,000
Unsecured	122,913	235,519	239,541	158,046	229,541	158,046
	153,222	235,519	249,541	166,046	239,541	166,046
Other borrowings - Unsecured	27,580	2,980	2,980	5,000	2,980	—
	180,802	238,499	252,521	171,046	242,521	166,046
Represented by:						
Repayable within one year or on demand:						
Bank loans	153,222	235,519	249,541	166,046	239,541	166,046
Other borrowings	27,580	2,980	2,980	5,000	2,980	—
	180,802	238,499	252,521	171,046	242,521	166,046

As at 31 December 2003, the Group's bank loan of approximately RMB30,309,000 was secured by a pledge of certain of the Group's inventories, which had aggregate net book values of approximately RMB30,309,000. In addition, bank loans and other borrowings of approximately RMB112,913,000 and RMB10,000,000, respectively, were guaranteed by a subsidiary of CSR.

As at 31 December 2004, the Group's bank loans of approximately RMB209,519,000, RMB10,000,000 and RMB1,000,000 were guaranteed by a subsidiary of CSR, ZELRI and a subsidiary respectively. The Group's bank loan of approximately RMB10,000,000 as at 31 December 2004 was under open credit term. In addition, the Group's bank loan of approximately RMB5,000,000 was secured by a pledge of certain fixed deposits of ZELRI.

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

As at 30 June 2006, the Group's bank loans of approximately RMB79,059,000 and RMB68,987,000 were guaranteed by a subsidiary of CSR and ZELRI respectively. The Group's bank loan of approximately RMB10,000,000 as at 30 June 2006 was under open credit term. In addition, the Group also has a bank loan of RMB8,000,000 as at 30 June 2006 which was secured by the Company's notes receivable.

The guarantees granted by a subsidiary of CSR and ZELRI mentioned above have been fully released in August 2006.

The Group's bank loans and other borrowings bear interest at rates ranging from 2.04% to 6.6875% per annum during the Relevant Periods.

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

As at 30 June 2006, the Company's bank loans of approximately RMB79,059,000 and RMB68,987,000 were guaranteed by a subsidiary of CSR and ZELRI respectively. The Company's bank loan of approximately RMB10,000,000 was under open credit term. In addition, the Company also has a bank loan of RMB8,000,000 as at 30 June 2006 which was secured by the Company's notes receivable.

The bank loans of the Company bear interest at rates ranging from 4.19% to 6.6875% per annum.

Other borrowings at 31 December 2003 and 2004 represented advances from the Ministry of Railways, whereas other borrowings at 31 December 2005 and 30 June 2006 represented advances from ZELRI following the succession of such advances by ZELRI from the Ministry of Railways.

(q) **Operating lease arrangements**

(i) *As lessor*

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

As at 31 December 2003, 2004 and 2005 and 30 June 2006, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	The Group and the Company			
	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	—	2,122
In the second to fifth years, inclusive	—	—	—	2,800
	—	—	—	4,922

(ii) *As lessee*

The Group leases certain of its property, plant and machinery under operating lease arrangements, with leases negotiated for terms of approximately three to four years.

As at 31 December 2003, 2004 and 2005 and 30 June 2006, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group and the Company			
	As at 31 December			As at 30 June
	2003	2004	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within one year	—	—	127	9,152
In the second to fifth years, inclusive	—	—	127	13,600
	—	—	254	22,752

(r) **Commitments**

Capital commitments

	The Group				The Company	
	As at 31 December			As at 30 June	As at 31 December	As at 30 June
	2003	2004	2005	2006	2005	2006
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Contracted, but not provided for: acquisition of items of property, plant and equipment	59,471	21,183	35,487	34,664	20,219	21,206

In April 2006, the Company has entered into an agreement to acquire a 50% equity interest in Zhuzhou Shiling Transportation Equipment, Ltd. ("Shiling") from ZELRI at a consideration of 50% of the sum of a base price and an adjustment. The base price is the higher amount of (i) Shiling's net assets as at 31 December 2005 as valued by a valuation agency designated by both parties and (ii) Shiling's net assets on its accounts as at 31 December 2005. The adjustment is equal to the difference between Shiling's net assets on its accounts as at 31 December 2005 and on the last day of the month immediately preceding the completion of the business registration of the share transfer, as reviewed by an auditor approved by both ZELRI and the Company. Such acquisition has not yet been completed at the date of this report. Certain financial information of is set out as below:

	As at 31 December 2005
	RMB'000
Total assets	111,371
Total liabilities	(68)
Net assets	111,303

	Period from 8 April 2005 (date of incorporation) to 31 December 2005
	RMB'000
Turnover	—
Loss before taxation	(4,568)
Taxation	—
Loss after taxation	(4,568)

(s) **Contingent liabilities**

At 31 December 2003, 2004 and 2005 and 30 June 2006, neither the Group nor the Company had any significant contingent liabilities.

6. STATEMENTS OF CHANGES IN EQUITY

The Group

The movements in the owners' equity of the Group for the Relevant Periods, prepared on the basis set out in Section 2 above, are as follows:

	Attributable to equity holders of the Company							
	Share Capital	**Capital reserve**	**Statutory reserves**	**Proposed dividend**	**Owners' equity/ retained profits** *(Note (a))*	**Total**	**Minority interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2003	—	—	—	—	491,295	491,295	500	491,795
Capital contributions *(Section 7(c))*	—	—	—	—	—	—	7,983	7,983
Net profit for the year	—	—	—	—	98,530	98,530	(2,118)	96,412
Balance at 31 December 2003	—	—	—	—	589,825	589,825	6,365	596,190
Balance at 1 January 2004	—	—	—	—	589,825	589,825	6,365	596,190
Net profit for the year	—	—	—	—	162,680	162,680	19,741	182,421
Acquisition of subsidiaries *(Section 7(a))*	—	—	—	—	—	—	16,893	16,893
Acquisition of additional interests in subsidiaries *(Section 7(b))*	—	—	—	—	—	—	(21,242)	(21,242)
Distribution of pre-incorporation profit *(Section 4(h))*	—	—	—	—	(51,476)	(51,476)	—	(51,476)
Dividend paid by subsidiaries	—	—	—	—	—	—	(1,600)	(1,600)
Distribution pursuant to the Reorganisation *(Section 7(d)(i))*	—	—	—	—	(202,544)	(202,544)	—	(202,544)
Balance at 31 December 2004	—	—	—	—	498,485	498,485	20,157	518,642
Balance at 1 January 2005	—	—	—	—	498,485	498,485	20,157	518,642
Capitalisation as a result of the Reorganisation *(note (a))*	629,812	(176,913)	—	—	(452,899)	—	—	—
Capital contribution from the Other Promoters *(Section 1)*	39,800	—	—	—	—	39,800	—	39,800
Distribution of pre-incorporation profit *(Section 4(h))*	—	—	—	—	(119,852)	(119,852)	—	(119,852)
Dividend paid by subsidiaries	—	—	—	—	—	—	(300)	(300)
Net profit for the year	—	—	—	—	211,733	211,733	6,184	217,917
Appropriation to statutory reserves *(note (b))*	—	—	13,134	—	(13,134)	—	—	—
Balance at 31 December 2005	669,612	(176,913)	13,134	—	124,333	630,166	26,041	656,207

	Attributable to equity holders of the Company							
	Share Capital	**Capital reserve**	**Statutory reserves**	**Proposed dividend**	**Owners' equity/ retained profits** *(Note (a))*	**Total**	**Minority interests**	**Total equity**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2006	669,612	(176,913)	13,134	—	124,333	630,166	26,041	656,207
Acquisition of an additional interest in a subsidiary *(Section 7(b))*	—	—	—	—	—	—	(20,569)	(20,569)
Dividend paid by subsidiaries	—	—	—	—	—	—	(8,115)	(8,115)
Net profit for the period	—	—	—	—	153,274	153,274	5,023	158,297
Appropriation to statutory reserves *(note (b))*	—	—	14,278	—	(14,278)	—	—	—
Proposed dividend *(Section 4(h))*	—	—	—	167,538	(167,538)	—	—	—
Balance at 30 June 2006	669,612	(176,913)	27,412	167,538	95,791	783,440	2,380	785,820
(Unaudited)								
Balance at 1 January 2005	—	—	—	—	498,485	498,485	20,157	518,642
Dividend paid by subsidiaries	—	—	—	—	—	—	(300)	(300)
Distribution of pre-incorporation profit *(Section 4(h))*	—	—	—	—	(109,343)	(109,343)	—	(109,343)
Net profit for the period	—	—	—	—	132,358	132,358	3,652	136,010
Balance at 30 June 2005	—	—	—	—	521,500	521,500	23,509	545,009

The Company

	Attributable to equity holders of the Company					
	Share Capital	**Capital reserve**	**Statutory reserves**	**Proposed dividend**	**Owners' equity/ retained profits** *(Note (a))*	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2005	—	—	—	—	463,771	463,771
Capitalisation as a result of the Reorganisation *(note (a))*	629,812	(186,195)	—	—	(443,617)	—
Capital contribution from the Other Promoters *(Section 1)*	39,800	—	—	—	—	39,800
Net profit for the year	—	—	—	—	126,379	126,379
Appropriation to statutory reserves *(note (b))*	—	—	13,134	—	(13,134)	—
Distribution of pre-incorporation profit *(Section 4(h))*	—	—	—	—	(119,852)	(119,852)
Balance at 31 December 2005	669,612	(186,195)	13,134	—	13,547	510,098
Balance at 1 January 2006	669,612	(186,195)	13,134	—	13,547	510,098
Net profit for the period	—	—	—	—	168,269	168,269
Appropriation to statutory reserves *(note (b))*	—	—	14,278	—	(14,278)	—
Proposed dividend *(Section 4(h))*	—	—	—	167,538	(167,538)	—
Balance at 30 June 2006	669,612	(186,195)	27,412	167,538	—	678,367

Notes:

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

(b) In accordance with the articles of association of the Company, which is applicable commencing from 1 January 2006, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with PRC GAAP and (ii) the net profit determined in accordance with IFRS. Under the PRC Company Law and the Company's articles of association, net profit after tax can only be distributed as dividends after allowances have been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates to 50% of the Company's issued share capital. For the purpose of calculating the transfer to reserves, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of such reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company.

(iii) Allocations to the discretionary common reserve if approved by the shareholders.

In addition to the above allowances to be made before dividend distribution, for period before 1 January 2006, the Company was also under the then requirement of the PRC Company Law and the Company's articles of association to make allocations of 5% to 10% of its after-tax profit, as determined under PRC GAAP, to the Company's statutory public welfare fund, which is established for the purpose of providing collective welfare benefits to the Company's employees such as the construction of dormitories, canteens and other staff welfare facilities. The fund forms part of the shareholders' equity as individual employees can only use these facilities, while the titles of such facilities are held by the Company. The transfer to this fund must be made before any distribution of dividends to shareholders.

The above reserves cannot be used for the purposes other than those for which they are created and are not distributable as cash dividends.

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

For the six-month period ended 30 June 2006, the Company appropriated RMB14,278,000 to the statutory common reserve fund, which represented 10% of the net profit after tax of the Company for the six-month period ended 30 June 2006 determined under PRC GAAP.

For dividend purposes, the amount which the Company's PRC subsidiaries can legally distribute by way of a dividend is determined with reference to their profits available for distribution as reflected in their respective financial statements which are prepared in accordance with PRC GAAP. These profits differ from those dealt with in this report which is prepared in accordance with IFRS.

7. CONSOLIDATED CASH FLOW STATEMENTS

The consolidated cash flow statements of the Group for the Relevant Periods and the six-month period ended 30 June 2006, which are prepared on the basis set out in Section 2 above, are as follows:

		The Group				
		Year ended 31 December			Six-month period ended 30 June	
	Section	2003	2004	2005	2005	2006
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES						
Profit from operating activities before tax and minority interests		96,412	185,047	218,556	136,617	158,541
Adjustments for:						
Finance costs	4(c)	8,075	10,800	13,819	6,336	7,320
Interest income	4(a)	(3,325)	(2,343)	(1,238)	(885)	(296)
Share of profits of associates		(17,878)	(8,256)	—	—	—
Dividend income	4(a)	(150)	—	—	—	—
Losses/(gains) on disposal of items of property, plant and equipment	4(b)	(470)	(1,833)	199	13	54
Depreciation of items of property, plant and equipment	4(b)	29,974	31,260	25,335	12,842	15,844
Impairment of items of property, plant and equipment	4(b)	2,234	75	—	—	—
Amortisation of lease prepayments	4(b)	—	93	564	280	133
Amortisation of intangible assets	4(b)	1,131	1,897	2,345	1,321	841
Provision/(write-back of provision) for doubtful debts on trade and other receivables, net	4(b)	817	2,596	4,318	(851)	7,482
Provision for obsolete inventories	4(b)	3,645	12,352	11,883	6,304	5,552
Write-off of an available-for-sale financial asset	4(b)	—	—	—	—	306

		The Group				
		Year ended 31 December			Six-month period ended 30 June	
	Section	2003	2004	2005	2005	2006
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
Excess of acquirers' interests in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries	4(a)	—	(46,822)	—	—	—
Excess of the acquirers' additional interests in the carrying value of acquirees' net assets over the cost of acquisition of additional interests in subsidiaries	4(a)	—	(4,644)	—	—	(7,414)
Operating profit before working capital changes		120,465	180,222	275,781	161,977	188,363
Increase in trade receivables, notes receivable, prepayments, deposits and other receivables		(82,490)	(11,939)	(92,164)	(188,085)	(7,546)
Decrease/(increase) in inventories		(80,065)	3,644	(53,162)	(8,060)	(68,756)
Increase/(decrease) in trade payables, notes payable, other payables and accruals		39,765	(19,686)	(57,112)	23,742	9,974
Increase in provision for warranties		3,793	1,674	8,521	4,128	9,117
Cash generated from operations		1,468	153,915	81,864	(6,298)	131,152
Interest paid	4(c)	(8,075)	(10,800)	(13,819)	(6,336)	(7,320)
Income tax paid		(2,926)	(1,410)	(14,214)	(10,156)	(263)
Net cash generated from/(used in) operations		(9,533)	141,705	53,831	(22,790)	123,569

		The Group				
		Year ended 31 December			Six-month period ended 30 June	
	Section	**2003**	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* *(unaudited)*	*RMB'000*
CASH FLOWS FROM INVESTING ACTIVITIES						
Interest received	4(a)	3,325	2,343	1,238	885	296
Dividends received from associates		675	2,517	—	—	—
Dividends received from available-for-sale financial assets	4(a)	150	—	—	—	—
Purchases of items of property, plant and equipment	5(a)	(84,403)	(63,476)	(100,396)	(33,946)	(40,337)
Additions to lease prepayments	5(b)	—	(12,726)	(306)	—	(11,508)
Additions to intangible assets	5(c)	(12,525)	(200)	(724)	(220)	(477)
Proceeds from disposal of items of property, plant and equipment		4,778	12,756	3,677	1,720	1,026
Acquisition of subsidiaries	7(a)	—	(9,356)	(17,000)	(10,000)	(19,095)
Additional investments in subsidiaries	7(b)	—	(16,304)	—	—	(9,150)
Investments in associates		(1,800)	—	—	—	—
Increase in pledged deposits		—	—	—	(2,549)	(2,365)
Net cash outflow from investing activities		(89,800)	(84,446)	(113,511)	(44,110)	(81,610)

		The Group				
		Year ended 31 December			Six-month period ended 30 June	
	Section	**2003**	**2004**	**2005**	**2005**	**2006**
		RMB'000	*RMB'000*	*RMB'000*	*RMB'000* (*unaudited*)	*RMB'000*
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from borrowings		207,822	260,371	294,541	152,830	188,066
Repayment of borrowings		(175,618)	(203,674)	(280,519)	(114,839)	(269,541)
Contributions from the Other Promoters		—	—	39,800	—	—
Capital contributions by minority shareholders	7(c)	7,983	—	—	—	—
Cash distribution to ZELRI	7(d)(i)	—	(24,566)	—	—	—
Dividends paid to minority shareholders	6	—	(1,600)	(300)	(300)	(8,115)
Net cash inflow/(outflow) from financing activities		40,187	30,531	53,522	37,691	(89,590)
Net increase/(decrease) in cash and cash equivalents		(59,146)	87,790	(6,158)	(29,209)	(47,631)
Cash and cash equivalents at beginning of year/period		142,640	83,494	171,284	171,284	165,126
Cash and cash equivalents at end of year/period	5(k)	83,494	171,284	165,126	142,075	117,495
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS						
Cash and deposits	5(k)	83,494	171,284	165,126	142,075	117,495

Notes:

(a) **Acquisition of subsidiaries**

As mentioned in Section 4(a)(ii), ZELRI acquired a 60% equity interest in Times Electronics, a then 30%-owned associate of ZELRI at a consideration of RMB54,900,000. Thereafter, ZELRI transferred its 90% equity interest in Times Electronics to the Company as part of the Relevant Businesses pursuant to the Reorganisation. Such acquisition is included in the Financial Information from the effective date of acquisition.

Since the date of acquisition, Times Electronics contributed a profit of RMB13,169,000 to the Group's profit attributable to the equity holders of the Company for the year ended 31 December 2004.

Had the aforesaid acquisition taken place alone at the beginning of 2004, the Group's profit attributable to equity holders of the Company would have been RMB174,223,000 and the revenue of the Group would have been RMB892,889,000 for that year.

Details of financial information of Times Electronics prior to the date of acquisition are set out in Section 8 below.

In 2004, ZELRI acquired a 80% equity interest in Times Fittings, a then 20%-owned investee company of ZELRI, at a consideration of RMB7,200,000. Upon the completion of the acquisition, Times Fittings was deregistered and all of its assets, liabilities and businesses were transferred to the Company as part of the Relevant Businesses pursuant to the Reorganisation. Such acquisition is included in the Financial Information from the effective date of acquisition.

Since the date of acquisition, Times Fittings contributed a profit of RMB4,065,000 to the Group's profit attributable to equity holders of the Company for the year ended 31 December 2004.

Had the aforesaid acquisition taken place alone at the beginning of 2004, the Group's profit attributable to the equity holders of the Company would have been RMB157,727,000 and the revenue of the Group would have been RMB791,792,000 for that year.

As mentioned in Section 4(a)(ii) above, Times Electronics has also acquired a 100% equity interest in Zhuzhou Jierui, a then 25.71%-owned associate of ZELRI, for a consideration of RMB17,500,000. The 25.71% equity interest in Zhuzhou Jierui owned by ZELRI comprised part of the Relevant Businesses prior to such acquisition and hence the net consideration attributable to the Group was RMB13,000,000, which excluded the consideration of RMB4,500,000 paid for the acquisition of such 25.71% equity interest in Zhuzhou Jierui from ZELRI. Upon the completion of the acquisition, Zhuzhou Jierui was deregistered and all of its assets, liabilities and businesses were transferred to Times Electronics. Such acquisition is included in the Financial Information from the effective date of acquisition.

Since the date of acquisition, Zhuzhou Jierui contributed a loss of RMB836,000 to the Group's profit attributable to equity holders of the Company for the year ended 31 December 2004.

Had the aforesaid acquisition taken place alone at the beginning of 2004, the Group's profit attributable to the equity holders of the Company would have been RMB167,692,000 and the revenue of the Group would have been RMB813,506,000 for that year.

The fair values of the identifiable assets, liabilities and contingent liabilities of the subsidiaries acquired and dealt with in the Financial Information at dates of acquisition were as follows:

	The Group
	Year ended 31 December 2004
	RMB'000
Property, plant and equipment	45,203
Lease prepayments	9,465
Interest in an associate	980
Available-for-sale financial assets	1,506
Inventories	84,662
Trade receivables	189,457
Notes receivable	5,700
Prepayments and other receivables	31,025
Cash and cash equivalents	29,649
Trade payables	(141,593)
Other payables and accruals	(43,788)
Provision for warranties	(6,961)
Interest-bearing bank and other borrowings	(1,000)
Tax payable	(10,618)
Minority interests	(16,893)
Fair value of net assets at dates of acquisition	176,794
Excess of acquirers' interests in net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over cost	(46,822)
	129,972
Satisfied by:	
Cash	75,100
Interests in associates	54,872
	129,972

An analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	The Group
	Year ended 31 December 2004
	RMB'000
Cash consideration	75,100
Less: cash consideration not yet paid	(36,095)
Cash consideration paid	39,005
Cash and cash equivalents acquired	(29,649)
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries in the consolidated cash flow statements	9,356

The cash consideration analysed by settlement dates is as follows:

	RMB'000
Due in 2004	39,005
Due in 2005	17,000
Due in 2006	19,095
	75,100

(b) **Acquisition of additional investments in subsidiaries**

As mentioned in Section 4(a)(iii) above, ZELRI acquired additional equity interests in Times Monitor and Times PCB respectively in 2004, and Times Monitor and Times PCB were deregistered with their respective assets, liabilities and businesses transferred to the Company as part of the Relevant Businesses pursuant to the Reorganisation. The total consideration of such acquisitions was RMB16,598,000, and the acquirer's interests in net assets acquired from the minority shareholders of Times Monitor and Times PCB amounted to RMB21,242,000. Such acquisitions of additional equity interests have been included in the Financial Information from the respective effective dates of acquisition. The cash flows used in such investment activities for the year ended 31 December 2004 amounted to RMB16,304,000. The remaining balance of RMB294,000 was settled in subsequent to 30 June 2006.

As mentioned in Section 4(a)(iii) above, the Company acquired a 10% equity interest in Times Electronics at a consideration of RMB9,150,000 during the six-month period ended 30 June 2006. In addition, the Company agreed that the seller is entitled to a 10% of the net profit of Times Electronics for the six months ended 30 June 2006, which amounted to RMB4,005,000. The cash flows used in such investment activities for the six-month period ended 30 June 2006 amounted to RMB9,150,000. The Group's additional interest in the carrying value of the net assets of Times Electronics arising from such acquisition of 10% equity interest from Times Electronics' minority shareholder amounted to RMB20,569,000 and the excess of such carrying value over the cost of acquisition attributable to the Group (includes net profit of Times Electronics entitled by the seller) of RMB7,414,000 was recognised in the consolidated income statements for the six-month period ended 30 June 2006.

(c) **Capital contributions by minority shareholder**

Upon its establishment in 2003, the minority shareholders of Times Monitor has contributed capital of RMB7,983,000 for an aggregate equity interest of 40% in Times Monitor. As mentioned in Section 7(b) above, Times Monitor was subsequently deregistered with its assets, liabilities and businesses transferred to the Company as part of the Relevant Businesses by ZELRI pursuant to the Reorganisation.

(d) **Major non-cash transactions**

(i) At the effective date of Reorganisation of 30 September 2004, those business divisions injected into the Company by ZELRI have distributed assets and liabilities with an aggregate net carrying value of RMB202,544,000 to ZELRI and such assets and liabilities were retained by ZELRI prior to the injection of such business divisions into the Company. Details of such assets and liabilities distributed to and retained by ZELRI are as follows:

	RMB'000
Property, plant and equipment *(Section 5(a))*	154,785
Inventories	49,464
Cash and cash equivalents	24,566
Prepayments	217
Other payable and accruals	(26,488)
	202,544

(ii) During the six-month period ended 30 June 2006, the Group settled the pre-incorporation profit distribution of RMB171,328,000 to ZELRI through a set-off against an outstanding receivable from ZELRI.

8. FINANCIAL INFORMATION OF TIMES ELECTRONICS

The followings are the financial information of Times Electronics and its subsidiary (collectively referred to as "Times Electronics Group") for the year ended 31 December 2003 and the nine-month period ended 30 September 2004:

(a) Consolidated income statements

		Times Electronics Group	
		Year ended 31 December 2003	Nine-month period ended 30 September 2004
	Notes	*RMB'000*	*RMB'000*
Turnover	(i)	176,037	146,852
Cost of sales		(107,529)	(108,769)
Gross profit		68,508	38,083
Other revenue and gains		6,557	3,870
Selling and distribution costs		(4,506)	(3,490)
Administrative expenses		(14,969)	(15,257)
Other operating expenses, net		(68)	(65)
Profit from operating activities	(ii)	55,522	23,141
Finance costs		(61)	(42)
Profit from operating activities before tax and minority interests		55,461	23,099
Income tax expenses	(iii)	(9,531)	(3,805)
Net profit for the year/period before minority interests		45,930	19,294
Attributable to:			
Equity holders of the Company		45,551	19,238
Minority interests		379	56
		45,930	19,294

(b) **Consolidated balance sheets of Times Electronics Group and the balance sheets of Times Electronics**

		Times Electronics Group		Times Electronics	
		As at 31 December 2003	As at 30 September 2004	As at 31 December 2003	As at 30 September 2004
	Notes	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
NON-CURRENT ASSETS					
Property, plant and equipment	(iv)	30,764	39,936	30,508	39,683
Lease prepayments	(v)	2,182	9,465	2,182	9,465
Investment in a subsidiary	(vi)	—	—	2,100	2,100
Interest in an associate	(vii)	—	980	—	980
Available-for-sale financial assets	(viii)	1,506	1,506	1,506	1,506
		34,452	51,887	36,296	53,734
CURRENT ASSETS					
Inventories	(ix)	81,460	78,693	78,163	74,216
Trade receivables	(x)	90,665	142,000	88,080	139,467
Notes receivable	(xi)	392	5,300	392	5,300
Prepayments, deposits and other receivables		6,374	6,401	5,526	6,055
Cash and cash equivalents		49,283	24,778	48,916	24,570
		228,174	257,172	221,077	249,608
CURRENT LIABILITIES					
Trade payables	(xii)	70,709	98,790	67,713	95,739
Notes payable	(xiii)	500	—	500	—
Other payables and accruals	(xiv)	33,851	36,379	33,439	36,422
Provision for warranties	(xv)	5,881	7,261	5,881	7,261
Interest-bearing bank borrowing		—	1,000	—	—
Dividend payable		5	90	5	—
Tax payable		6,032	6,687	5,925	6,695
		116,978	150,207	113,463	146,117
NET CURRENT ASSETS		111,196	106,965	107,614	103,491
TOTAL ASSETS LESS CURRENT LIABILITIES		145,648	158,852	143,910	157,225
EQUITY					
Equity attributable to equity holders of the Company	Section 8(c)	144,497	157,735	143,910	157,225
Minority interests	Section 8(c)	1,151	1,117	—	—
TOTAL EQUITY		145,648	158,852	143,910	157,225

(c) **Statements of changes in equity**

Times Electronics Group

	Attributable to equity holders of the Company						
	Paid-in capital	Statutory reserves	Proposed final dividend	Retained profits	Total	Minority interests	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2003	15,000	12,125	2,250	71,821	101,196	772	101,968
Net profit for the year	—	—	—	45,551	45,551	379	45,930
Final 2002 dividend declared	—	—	(2,250)	—	(2,250)	—	(2,250)
Appropriation to statutory reserves	—	4,817	—	(4,817)	—	—	—
Proposed final 2003 dividend	—	—	6,000	(6,000)	—	—	—
Balance at 31 December 2003	15,000	16,942	6,000	106,555	144,497	1,151	145,648
Balance at 1 January 2004	15,000	16,942	6,000	106,555	144,497	1,151	145,648
Net profit for the period	—	—	—	19,238	19,238	56	19,294
Final 2003 dividend declared	—	—	(6,000)	—	(6,000)	—	(6,000)
Dividend paid by a subsidiary	—	—	—	—	—	(90)	(90)
Balance at 30 September 2004	15,000	16,942	—	125,793	157,735	1,117	158,852

Times Electronics

	Attributable to equity holders of the Company				
	Paid-up capital	Statutory reserves	Proposed final dividend	Retained profits	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2003	15,000	12,125	2,250	69,356	98,731
Net profit for the year	—	—	—	47,429	47,429
Final 2002 dividend declared	—	—	(2,250)	—	(2,250)
Appropriation to statutory reserves	—	4,817	—	(4,817)	—
Proposed final 2003 dividend	—	—	6,000	(6,000)	—
Balance at 31 December 2003	15,000	16,942	6,000	105,968	143,910
Balance at 1 January 2004	15,000	16,942	6,000	105,968	143,910
Net profit for the period	—	—	—	19,315	19,315
Final 2003 dividend declared	—	—	(6,000)	—	(6,000)
Balance at 30 September 2004	15,000	16,942	—	125,283	157,225

(d) **Consolidated cash flow statements**

	Sections	Times Electronics Group Year ended 31 December 2003	Nine-month period ended 30 September 2004
		RMB'000	*RMB'000*
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit from operating activities before tax and minority interests		55,461	23,099
Adjustments for:			
Finance costs		61	42
Interest income	8(e)(ii)	(181)	(282)
Losses on disposal of items of property, plant and equipment, net	8(e)(ii)	53	32
Depreciation of items of property, plant and equipment	8(e)(ii)	1,810	1,731
Amortisation of lease prepayments	8(e)(ii)	47	48
Provision/(write-back of provision) for doubtful debts on trade and other receivables, net	8(e)(ii)	(82)	1,391
Provision for obsolete inventories	8(e)(ii)	2,611	1,807
Operating profit before working capital changes		59,780	27,868
Decrease/(increase) in trade receivables, notes receivable, prepayments, deposits and other receivables		13,562	(57,661)
Decrease/(increase) in inventories		(19,994)	960
Increase/(decrease) in trade payables, notes payable, other payables and accruals		(107)	30,109
Increase in provision for warranties		1,508	1,380
Cash generated from operations		54,749	2,656
Interest paid		(61)	(42)
Income tax paid		(7,477)	(3,150)
Net cash generated from/(used in) operation		47,211	(536)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	8(e)(ii)	181	282
Purchases of items of property, plant and equipment	8(e)(iv)	(19,773)	(10,955)
Additions to lease prepayments	8(e)(v)	—	(7,331)
Proceeds from disposal of items of property, plant and equipment		2	20
Interest in an associate	8(e)(vii)	—	(980)
Net cash outflow from investing activities		(19,590)	(18,964)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from borrowings		—	1,000
Dividends paid		(2,250)	(6,005)
Net cash outflow from financing activities		(2,250)	(5,005)
Net increase/(decrease) in cash and cash equivalents		25,371	(24,505)
Cash and cash equivalents at beginning of year/period		23,912	49,283
Cash and cash equivalents at end of year/period		49,283	24,778
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and deposits		49,283	24,778

(e) Notes to financial information

(i) Turnover

Turnover represents the net invoice value of goods sold, net of discounts and returns.

(ii) Profit from operating activities

Profit from operating activities is arrived at after charging/(crediting):

	Times Electronics Group	
	Year ended 31 December 2003	Nine-month period ended 30 September 2004
	RMB'000	*RMB'000*
Cost of inventories sold	107,529	108,769
Staff costs (including directors' and supervisors' emoluments)	9,440	7,168
Auditors' remuneration	124	—
Depreciation of items of property, plant and equipment	1,810	1,731
Amortisation of lease prepayments	47	48
Provision for obsolete inventories	2,611	1,807
Research and development costs	3,396	2,539
Less: staff cost included above	(2,098)	(1,733)
Research and development costs net of staff cost	1,298	806
Losses on disposal of items of property, plant and equipment, net	53	32
Provision/(write-back of provision) for doubtful debts on trade and other receivables, net	(82)	1,391
Provision for warranties	2,115	2,022
Interest income	(181)	(282)
Value-added tax refund	(6,275)	(3,288)

(iii) Income tax expenses

PRC corporate income tax has been provided based on the taxable income as reported in the statutory accounts of the relevant companies comprising Times Electronics Group, which are prepared in accordance with PRC GAAP, as adjusted for income and expense items which are not assessable or deductible for income tax purpose. Further details of the income tax rates of the companies comprising Times Electronics Group are set out in Section 4(e)(ii).

	Times Electronics Group	
	Year ended 31 December 2003	Nine-month period ended 30 September 2004
	RMB'000	*RMB'000*
Current taxation		
— PRC corporate income tax	9,531	3,805

A reconciliation of income tax exposure applicable to profit before tax at the statutory income tax rate in the PRC to income tax exposure at Times Electronics Group's effective income tax rate for the year ended 31 December 2003 and the nine-month period ended 30 September 2004 were as follows:

	Times Electronics Group			
	Year ended 31 December 2003		**Nine-month period ended 30 September 2004**	
	RMB'000	*%*	*RMB'000*	*%*
Profit from operating activities before tax and minority interests	55,461		23,099	
Standard tax rate applied to profit before tax	18,302	33.0	7,623	33.0
Reconciling items:				
Expenses not deductible for income tax	2,247	4.1	705	3.1
Income not subject to income tax	(956)	(1.7)	(351)	(1.5)
Effect of tax incentive	(10,007)	(18.1)	(4,172)	(18.1)
Tax losses utilised from previous period	(55)	(0.1)	—	—
Total tax charge for the year/period	9,531	17.2	3,805	16.5

(iv) **Property, plant and equipment**

Times Electronics Group

	Buildings	Plant, machinery and equipment	Computer equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003:					
Cost	8,395	7,101	1,391	133	17,020
Accumulated depreciation and impairment	(697)	(3,058)	(409)	—	(4,164)
Net carrying amount	7,698	4,043	982	133	12,856
At 1 January 2003, net of accumulated depreciation and impairment	7,698	4,043	982	133	12,856
Additions	2,153	627	—	16,993	19,773
Disposals	—	(55)	—	—	(55)
Depreciation provided during the year	(273)	(1,120)	(417)	—	(1,810)
At 31 December 2003, net of accumulated depreciation and impairment	9,578	3,495	565	17,126	30,764
At 31 December 2003 and at 1 January 2004:					
Cost	10,548	7,540	1,391	17,126	36,605
Accumulated depreciation and impairment	(970)	(4,045)	(826)	—	(5,841)
Net carrying amount	9,578	3,495	565	17,126	30,764
At 1 January 2004, net of accumulated depreciation and impairment	9,578	3,495	565	17,126	30,764
Additions	213	1,534	394	8,814	10,955
Transfer to/(from)	24,132	1,808	—	(25,940)	—
Disposals	—	(2)	(50)	—	(52)
Depreciation provided during the period	(720)	(753)	(258)	—	(1,731)
At 30 September 2004, net of accumulated depreciation and impairment	33,203	6,082	651	—	39,936
At 30 September 2004:					
Cost	34,893	10,874	1,503	—	47,270
Accumulated depreciation and impairment	(1,690)	(4,792)	(852)	—	(7,334)
Net carrying amount	33,203	6,082	651	—	39,936

Times Electronics

	Buildings	Plant, machinery and equipment	Computer equipment and others	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2003:					
Cost	8,395	6,838	1,391	133	16,757
Accumulated depreciation and impairment	(697)	(2,986)	(409)	—	(4,092)
Net carrying amount	7,698	3,852	982	133	12,665
At 1 January 2003, net of accumulated depreciation and impairment	7,698	3,852	982	133	12,665
Additions	2,153	493	—	16,993	19,639
Disposals	—	(50)	—	—	(50)
Depreciation provided during the year	(273)	(1,056)	(417)	—	(1,746)
At 31 December 2003, net of accumulated depreciation and impairment	9,578	3,239	565	17,126	30,508
At 31 December 2003 and at 1 January 2004:					
Cost	10,548	7,152	1,391	17,126	36,217
Accumulated depreciation and impairment	(970)	(3,913)	(826)	—	(5,709)
Net carrying amount	9,578	3,239	565	17,126	30,508
At 1 January 2004, net of accumulated depreciation and impairment	9,578	3,239	565	17,126	30,508
Additions	213	1,476	394	8,814	10,897
Transfer to/(from)	24,132	1,808	—	(25,940)	—
Disposals	—	(2)	(50)	—	(52)
Depreciation provided during the period	(720)	(692)	(258)	—	(1,670)
At 30 September 2004, net of accumulated depreciation and impairment	33,203	5,829	651	—	39,683
At 30 September 2004:					
Cost	34,893	10,428	1,503	—	46,824
Accumulated depreciation and impairment	(1,690)	(4,599)	(852)	—	(7,141)
Net carrying amount	33,203	5,829	651	—	39,683

(v) **Lease prepayments**

	Times Electronics Group		Times Electronics	
	As at 31 December 2003	As at 30 September 2004	As at 31 December 2003	As at 30 September 2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Carrying amount at beginning of year/period	2,229	2,182	2,229	2,182
Additions	—	7,331	—	7,331
Amortisation provided during the year/period	(47)	(48)	(47)	(48)
Carrying amount at end of year/period	2,182	9,465	2,182	9,465

Lease prepayments represent the costs of land use rights paid to the PRC government authorities. Land use rights are stated at cost less accumulated amortisation and any impairment losses. The land use rights are amortised on the straight-line basis over the terms of the rights of 50 years.

(vi) **Investment in a subsidiary**

	Times Electronics	
	As at 31 December 2003	As at 30 September 2004
	RMB'000	*RMB'000*
Unlisted investment, at costs	2,100	2,100

Particulars of the subsidiary of Times Electronics as at 31 December 2003 and 30 September 2004 are as follows:

Company name	Place and date of establishment and operations	Paid-up/ registered capital	Percentage of interests attributable to Times Electronics Group: As at 31 December 2003	Percentage of interests attributable to Times Electronics Group: As at 30 September 2004	Principal activities
Times Guangchuang	PRC 15 May 2001	RMB3,000,000	70	70	Manufacture and sale of power supply equipment for air conditioners of locomotives

(vii) **Interest in an associate**

	Times Electronics Group and Times Electronics	
	As at 31 December 2003	**As at 30 September 2004**
	RMB'000	*RMB'000*
Share of net assets of an associate	—	980

Particulars of the associate of Times Electronics Group and Times Electronics as at 31 December 2003 and 30 September 2004 are as follows:

Company name	Place and date of establishment and operations	Paid-up/ registered capital	Percentage of interests attributable to Times Electronics Group As at 31 December 2003	Percentage of interests attributable to Times Electronics Group As at 30 September 2004	Principal activities
Zhuzhou Times Hi-Technology Property Management Co., Ltd.	PRC 31 March 2004	RMB3,500,000	—	28	Property management in the PRC

(viii) **Available-for-sale financial assets**

	Times Electronics Group and Times Electronics	
	As at 31 December 2003	**As at 30 September 2004**
	RMB'000	*RMB'000*
At cost:		
Unlisted equity investments	1,506	1,506

(ix) **Inventories**

	Times Electronics Group		Times Electronics	
	As at 31 December 2003	**As at 30 September 2004**	**As at 31 December 2003**	**As at 30 September 2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Raw materials	56,154	57,465	54,881	55,381
Work in progress	13,100	17,718	13,000	17,568
Finished goods	19,994	13,095	18,148	10,940
Consumables and packing materials	78	88	—	—
	89,326	88,366	86,029	83,889
Less: Provision for obsolete inventories	(7,866)	(9,673)	(7,866)	(9,673)
	81,460	78,693	78,163	74,216

(x) **Trade receivables**

Times Electronics Group generally stipulates payment upon delivery in sales contracts entered into with customers. However, in the opinion of the directors, Times Electronics Group has effectively granted an average credit period of around six months to its customers after taking into account the practice of the industry in which the Times Electronics Group conducted its businesses.

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

	Times Electronics Group		Times Electronics	
	As at 31 December 2003	As at 30 September 2004	As at 31 December 2003	As at 30 September 2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 1 year	88,681	138,582	86,094	136,091
Over 1 year but within 2 years	2,306	3,780	2,294	3,735
Over 2 years but within 3 years	650	852	650	837
Over 3 years	76	525	76	525
	91,713	143,739	89,114	141,188
Less: Provision for impairment of receivables	(1,048)	(1,739)	(1,034)	(1,721)
	90,665	142,000	88,080	139,467

(xi) **Notes receivable**

	Times Electronics Group		Times Electronics	
	As at 31 December 2003	As at 30 September 2004	As at 31 December 2003	As at 30 September 2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Over 3 months but within 6 months	392	5,300	392	5,300

(xii) **Trade payables**

The normal credit period for trade payables is three months.

An age analysis of trade payables is as follows:

	Times Electronics Group		Times Electronics	
	As at 31 December 2003	As at 30 September 2004	As at 31 December 2003	As at 30 September 2004
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Within 3 months	64,605	91,437	62,054	88,559
Over 3 months but within 1 year	1,074	5,097	629	4,959
Over 1 year but within 2 years	3,961	1,291	3,961	1,256
Over 2 years but within 3 years	63	867	63	867
Over 3 years	1,006	98	1,006	98
	70,709	98,790	67,713	95,739

(xiii) **Notes payable**

	Times Electronics Group		Times Electronics	
	As at 31 December 2003	**As at 30 September 2004**	**As at 31 December 2003**	**As at 30 September 2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Over 3 months but within 6 months	500	—	500	—

(xiv) **Other payables and accruals**

	Times Electronics Group		Times Electronics	
	As at 31 December 2003	**As at 30 September 2004**	**As at 31 December 2003**	**As at 30 September 2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Receipts in advance	1,599	3,811	1,337	3,811
Other payables	32,091	32,472	31,943	32,515
Accruals	161	96	159	96
	33,851	36,379	33,439	36,422

(xv) **Provision for warranties**

	Times Electronics Group		Times Electronics	
	As at 31 December 2003	**As at 30 September 2004**	**As at 31 December 2003**	**As at 30 September 2004**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At beginning of year/period	4,373	5,881	4,373	5,881
Provision made during the year/period	2,115	2,022	2,115	2,022
Amounts utilised	(607)	(642)	(607)	(642)
At end of year/period	5,881	7,261	5,881	7,261

The Group generally provides one to three year warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provisions is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

9. DISTRIBUTABLE RESERVES

The Company's distributable reserve as at 30 June 2006 was nil, which was determined based on the lower of the Company's PRC GAAP and IFRS after-tax profits after allowance for the transfer to the statutory common reserve fund of an amount of RMB14,278,000 and dividend distribution of RMB167,538,000 as approved in the Company's shareholders' meeting in November 2006. Further details of such special dividend are set out in Section 4(h) above and Section 12 below.

10. FINANCIAL INSTRUMENTS

The financial assets of the Group mainly include cash and cash equivalents, trade and notes receivables, other receivables and other financial assets. The financial liabilities of the Group mainly include other payables and accruals, trade and notes payables, bank loans and other borrowings. The Group did not enter into any derivative activities during the Relevant Periods.

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

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

11. CONCENTRATION OF RISKS

(a) Credit risk

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

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

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

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

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

(b) **Liquidity risk**

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

(c) **Interest rate risk**

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

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

(d) **Foreign currency risk**

The businesses of the Group are principally conducted in the PRC. While most of the transactions of the Group are principally conducted in RMB, certain of their purchases, sales and borrowings are denominated in other currencies including, among others, United States dollar, European currency units and Hong Kong dollar. Fluctuation of exchange rates of RMB against foreign currencies can affect the Group's results of operations.

12. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 30 June 2006, the Company declared a special dividend of RMB167,538,000 to its shareholders in November 2006 and such dividend was subsequently fully settled. Further details of which are set out in Section 4(h) and Section 9 above.

In July 2006, the Company has entered into an agreement to acquire a 17% equity interest in Siemens Traction Equipment Ltd., Zhuzhou ("Siemens Zhuzhou") from ZELRI at a consideration of 17% of the sum of a base price and an adjustment. The base price is the higher amount of (i) Siemens Zhuzhou's net assets as at 31 December 2005 as valued by a valuation agency designated by both parties and (ii) Siemens Zhuzhou's net assets on its accounts as at 31 December 2005. The adjustment is equal to the difference of Siemens Zhuzhou's net assets on its accounts between 31 December 2005 and the last day of the month immediately preceding the completion of the business registration of the share transfer, as reviewed by an auditor approved by both ZELRI and the Company. Such acquisition has not yet been completed at the date of this report.

In November 2006, the Group entered into various agreements with ZELRI, CSR and China Railway Large Maintenance Machinery Co., Kunming respectively for the sale and purchase of goods and services to and from ZELRI, CSR and China Railway Large Maintenance Machinery Co., Kunming respectively, further details of which are set out in the section headed "Connected Transactions" contained in the Prospectus.

13. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Group or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2006.

Yours faithfully,
Ernst & Young
Certified Public Accountants
Hong Kong