# annual report 2008

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株洲南車時代電氣股份有限公司

ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

*(a joint stock company incorporated in the People's Republic of China with limited liability)*

*(Stock Code: 3898)*

# Contents



# Financial Highlights

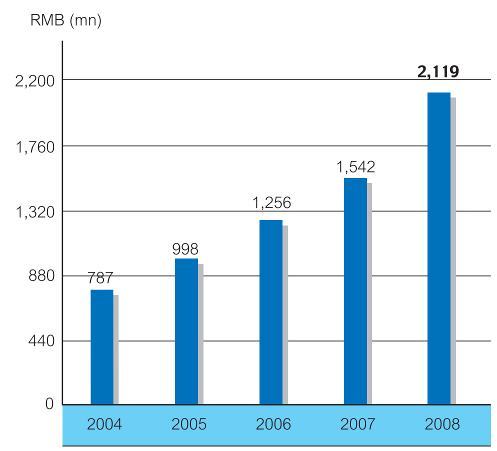
## CONSOLIDATED INCOME STATEMENT HIGHLIGHTS

| | Year Ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2008 RMB'000** | 2007 RMB'000 | 2006 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Revenue | **2,119,323** | 1,541,804 | 1,255,926 | 997,976 | 787,756 |
| Profit from operations | **489,766** | 332,579 | 317,013 | 232,375 | 187,591 |
| Profit before tax | **496,842** | 344,911 | 302,581 | 218,556 | 185,047 |
| Profit for the year | **423,337** | 347,477 | 302,268 | 217,917 | 182,421 |
| Minority Interests | **1,037** | 88 | 5,497 | 6,184 | 19,741 |
| Profit attributable to equity holders of the parent | **422,300** | 347,389 | 296,771 | 211,733 | 162,680 |
| Basic earnings per share attributable to ordinary equity holders of the parent | **RMB0.39** | RMB0.32 | RMB0.44 | RMB0.33 | RMB0.26 |

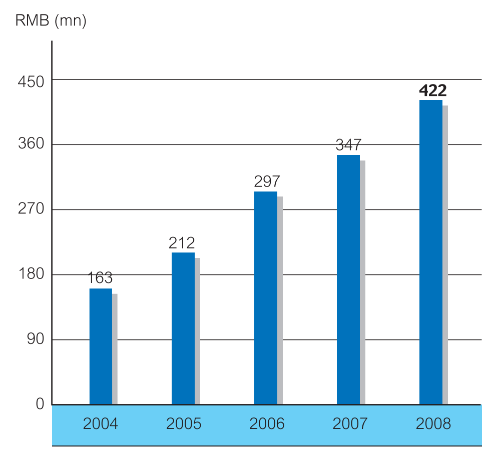
## CONSOLIDATED BALANCE SHEET HIGHLIGHTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| | **2008 RMB'000** | 2007 RMB'000 | 2006 RMB'000 | 2005 RMB'000 | 2004 RMB'000 |
| Total assets | **4,169,122** | 3,644,903 | 3,788,256 | 1,481,397 | 1,289,124 |
| Total liabilities | **741,453** | 483,453 | 940,246 | 825,190 | 770,482 |
| Net assets | **3,427,669** | 3,161,450 | 2,848,010 | 656,207 | 518,642 |

2004-2008 Growth in revenue




2004-2008 Growth in net profit



# Chairman's Report

Dear Shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31 December 2008. On behalf of the Board of Directors, I would like to express our gratitude to all shareholders for your care and support.

## Performance Overview

The Group's turnover in 2008 was RMB2,119.3 million (2007:RMB1,541.8 million), an increase of 37.5% from the previous year. Profit attributable to equity holders of the parent was RMB422.3 million (2007: RMB347.4million), an increase of 21.6% over the previous year. Basic earnings per share was RMB0.39 (2007: RMB0.32).

## Business Review

In 2008, under the planning of the Ministry of Railways and CSR, the Company, through previous digestion and absorption, further upgraded its independent renovation capability, established a complete technology, development and manufacture platform, cultivated a team of talents, and equipped itself with the ability to optimize and continuously upgrade products through independent design. Out of strong sense of responsibility and entrepreneur spirit, the Company shouldered the glorious mission of developing the power, control and operation safety technology for train equipments in China and endeavored in all aspects to ensure product quality and train operation safety. During the past year, the Company vigorously explored new market while consolidating and expanding its existing market amid the volatile economic situation and satisfactory results were achieved.

In order to meet the demand of railway passengers transportation in China, the Ministry of Railways organized the independent research and development of 200-250km/h Long EMUs. The Company undertook the research and development of the electrical system for such EMUs with the first sample verification completed and delivery commenced in March 2008. The Company won the order for electrical system for the new 200-250km/h Long EMUs again in July 2008. The electrical system for 300km/h EMUs successfully passed the first sample assessment and delivery was made smoothly according to the schedule required by the Ministry of Railways and the vehicle manufacturer in March 2008.

In July 2008, the supply contract for electrical systems used for 9,600kW high-powered locomotives was officially entered into, evidencing a significant breakthrough of the Company in the field of electrical system products used for high-powered locomotives. The six-axle A/C electric locomotive with gross power of 9,600kW is the most technically advanced high-powered locomotive in the world. With its single-axle power lifted to 1,600kW from 1,200kW, it involves higher technology and difficulty which is regarded as reaching the highest technological level of electric locomotive. To facilitate the implementation of such project, the Company also acquired 30% equity interests in Zhuzhou Siemens in September 2008.

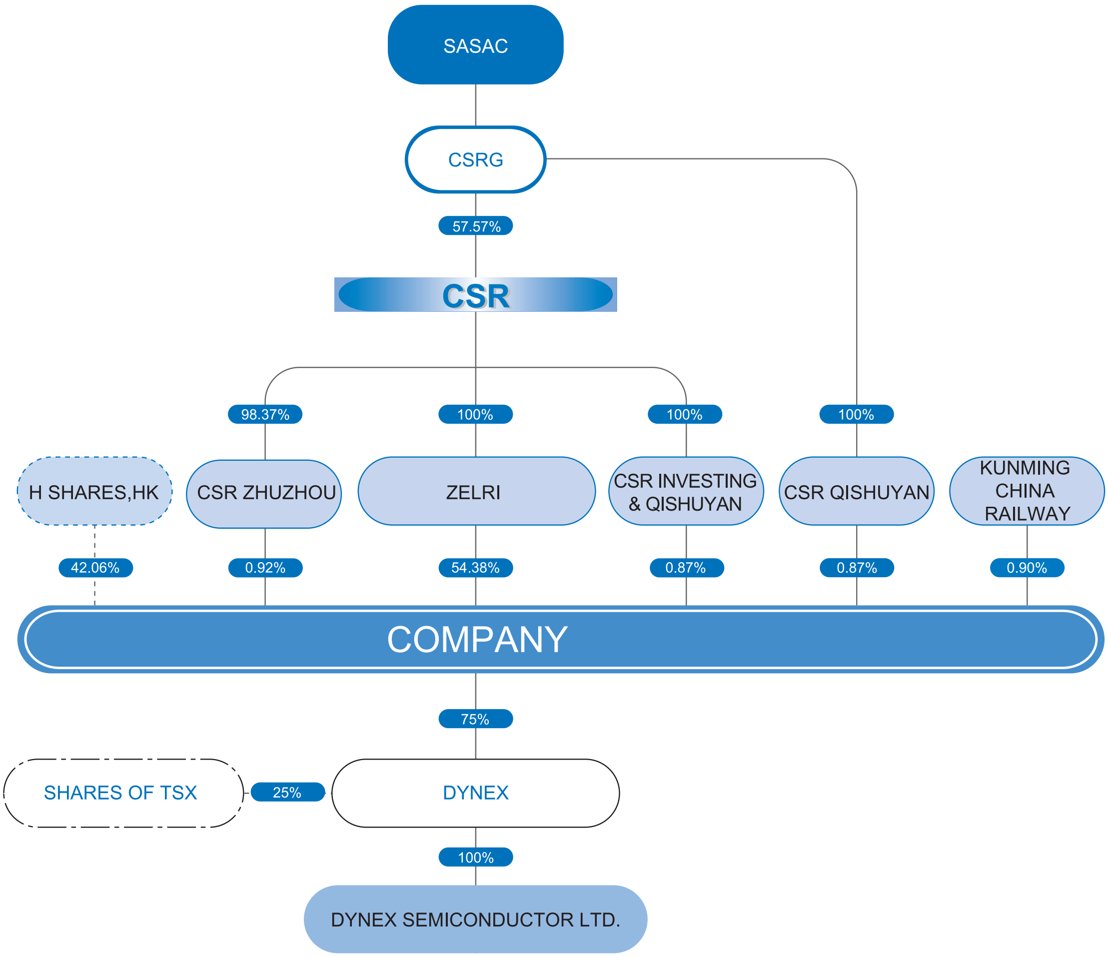
In February 2008, the Company was designated by the Ministry of Railways as the actual transferee of the converter portion of the purchase and technology import project for high-powered A/C diesel locomotive to assume the digestion and absorption and domestic production of GE's converter. In only half a year since the technology transfer commenced in May 2008, the Company successfully completed a series of complex work such as transformation of about 1,000 drawings, high-standard technological preparation and establishment of full-set test system, guided by the principle of renovation after import, digestion and absorption. The product successfully passed first sample verification and was applied to the "HXN5" (the highest power environment-friendly diesel locomotive in the nation) in November 2008, which had a very important strategic meaning as far as the business of the Company in the field of converter for high-powered A/C diesel locomotive is concerned.

In March 2008, the Company secured a supply contract for power brake system of No.2 Line of Shenyang Metro to supply the system independently developed and owned by the Company for the period from 2009 to 2010, which is the first time for urban metro in China to use on a large scale domestically produced key components such as A/C transmission power system. In September 2008, the Company entered into scientific and technological cooperation agreement with Guangzhou Metro Company, which is the first cooperation between metro component supplier and metro operator in China, to establish long-term stable cooperation and further promote the scientific and technological level of key products used for urban rail market. In October 2008, the reconstructed vehicle of No.1 Line of Shanghai Metro was officially completed in CSR Zhuzhou with its originally equipped proprietary D/C power system of the Company upgraded into the latest A/C power system and in turn its power increased by over 30%, which significantly improved the technology level of localized metro and overall performance of the train.

Immediately after its fund raising by listing, the Company commenced the largest reconstruction project in history to expand its capacity. In March 2008, the specialized manufacture base funded by share issue was officially completed and put into operation. With a total floor area of nearly 40,000 square meters, such base has world leading manufacture and test equipments and can accommodate 12 modern streamline production lines which can meet the demand for production value growth of the Company for quite a long period of time in the future, brought the production model of the Company from the long-existing "small batch, extent variety" into a new era of "specialization, large-scale, modernization" and strongly ensured safe transportation and modernized equipment for railway. Subsequent to the cooperation between Freescale Semiconductor, a world renowned semiconductor supplier, and the Company to establish the first microelectronics application allied lab in Chinese rail transportation section in November 2007, Texas Instruments, a world leading IC magnate, and the Company jointly established an information processing technology allied lab in May 2008 to jointly develop and design the signal processing products, which will provide to the Company with world cutting-edge technology support in respect of its development in transmission technology, converter technology, power supply technology, video processing technology and radio communication technology, in the hope to apply the latest and most advanced technology to the information-based construction of Chinese railway and other rail transportation.

In October 2008, the Company acquired 75% equity interest in Dynex, a company listed on TSX Venture Exchange of Toronto, Canada, which is principally engaged in the research, development and sales of power semiconductor device and its module. The Company not only established a new platform to develop overseas operation and raise funds, but also will form integrated product structure in this sector, which in turn will significantly enhance the core competitiveness of the Company and the competitiveness of its products in international market. Many technologies possessed by Dynex, in particular the technology in the area of IGBT, are at world-leading level. There is great potential for IGBT products to be applied in the industry of railway, urban rail, wind power generation and electromobile in China. As a result, such acquisition received warm support from NDRC and the Ministry of Railways. Upon the completion of such acquisition, the Company commenced the integration of its own power semiconductor business and that of Dynex to achieve operational synergies.

After the acquisition of Dynex, the shareholding relationship between the Company and its controlling shareholder and its listed subsidiaries is set out below:




In 2008, the Group continued to improve its level of management, deepened the construction of procedure policy, further constructed its quality safety policy, strengthened the construction of financial system and pushed forward the construction of ERP system. Through such a series of measures, the Group's internal control was remarkably improved and operational efficiency was significantly lifted.

## Outlook

Amid the impact on many industries caused by global financial crisis, rail vehicle industry in China, however, saw an important turning point and growth opportunity, which is mainly due to (1) investment and construction in Chinese railway, for quite a long time, have been lagging behind in relation to the growth of national economy, and the railway transport capacity is far from sufficient to meet the demand by economic development. Accordingly, it is essential to accelerate the construction of a complete modern railway network so as to safeguard a sustainable economic development in China in the future; (2) a large quantity of passenger special lines constructed during the period of the "11th Five-year Plan" will commence operation in succession in the coming several years, resulting in unprecedented demand for modern high-speed passenger EMUs; and (3) the overall development of railway industry in China, including the rolling stock sector, is an important part of the industry chain and is of far reaching importance to drive the development of many other industries in China. Amid the global economic crisis, the Chinese government adopted the policy to expand domestic demand and increase investment. Such investments in traffic facilities post a scarce growth opportunity for the rail transport equipment manufacture industry, and thus bring an important chance for the Company to achieve rapid growth.

In February 2008, the Ministry of Railways and the Ministry of Science and Technology signed an agreement in respect of the Joint Action Plan regarding Independent Renovation for China High-speed Train, pursuant to which, independent renovation work shall be further increased based on the achievement made during technology import, digestion, absorption and renovation, breakthrough in key technologies shall be achieved, renovation achievements shall be integrated so as to develop a new generation of 350km/h and above high-speed train and provide a strong equipment safeguard for Beijing-shanghai high-speed railway; a technology system incorporating 350km/h and above Chinese high-speed train with independent intellectual property rights and strong international competitiveness shall be established and improved, so as to accelerate the realization of the goal of leading the world in the area of technology development for high-speed railway; the technology renovation chain for high-speed train with Chinese characteristics and the production, study and research alliance shall be constructed, so as to continuously enhance independent renovation capability and provide a strong support for the sustainable development of Chinese high-speed train technology; renovation elements shall be actively guided to enterprises so as to facilitate the transformation of renovation results into productivity, create Chinese high-speed train industry chain and cluster and drive and improve the manufacture capacity of relevant major equipments in China. Currently, the Company is making first-phase preparation for design, development and production of electrical system used for 350km/h modern high-speed EMUs under the guidance of the Ministry of Railways.

Leveraging on the continuous renovation platform derived from previous digestion and absorption, the Company has promptly started up the development of electrical system used for 7,200kW six-axle locomotive according to arrangement of the Ministry of Railways. As compared to existing high-powered locomotives, this type of new locomotive requires even shorter lead time and more independency in respect of development. The Company substantially completed schematic design and development of first batch prototype for electrical system within only three months, and is pressing forward with strict test and evaluation. At present, we are in the process of preparation for mass production to ensure the demand from railway transport be satisfied. Such business is a significant opportunity for the Company.

Under the arrangement by the Ministry of Railways and Kunming China Railway, the Company has developed home-made electrical systems for large railway maintenance vehicles suitable for China's railways by introducing foreign advanced production technologies and through innovative development. Large railway maintenance vehicles are essential to ensuring the quality and stable operation of railway equipment and the safe operation of trains. During the period of 11th Five-year, all major lines will be equipped with repairing and maintenance units. Further, new large home-made railway maintenance vehicles will be introduced and applied in eastern railways so as to achieve the first accomplishment of modernization in eastern railways and secure a leading position for China's railways in terms of the equipment level of large railway maintenance vehicles. The Company also intends to undertake engineering machinery business in relation to small and medium railways.

In respect of power semiconductor business, the Company made a breakthrough in high voltage direct current transmission in 2009. We replaced all imported thyristor devices with our products in Genan reform project, the first high voltage direct current transmission project in the PRC, and won a bid for the provision of thyristor devices for two high voltage direct current transmission projects of the State Grid, which was the first time the State Grid purchased high voltage direct current transmission thyristor devices independently developed by domestic enterprises in quantities. Upon commencement of operation, the No.3 semiconductor production line financed by raised funds will become the largest power semiconductor production and research and development base in Asia, and the technical level of the Company in respect of power and electronic industries will be greatly enhanced. As for future high voltage direct current transmission investment and construction projects, the Company will play a more important role in high voltage direct current transmission and contribute more to China's high voltage direct current transmission.

With the funds raised, the new experiment system of the Company will be built and put into operation in the year, and as a result, the experiment capacity of the Company will be significantly enhanced mainly in the following aspects:

- The overall design, verification and experiment capacity for traction and control system will be significantly enhanced. The Company will be able to conduct systematic research, functional experiment, line simulation experiment, system's reliability research and examination for new locomotive vehicle traction and control system and conduct substantially all the experiments previously undertaken by field experiments.

- Reliability research experiment capacity for core electric equipment and electronic products will be significantly enhanced. The Company will be able to conduct product type experiment, reliability and environmental experiment and research experiment, identify the defects of products in design, material and process, provide technical support for improving the reliability design of products, and conduct research on the reliability design and verification for electric and electronic products.

- Research and experiment capacity for advanced control technology represented by network technology and wireless information technology will be significantly enhanced. Network technology research will focus on the consistency research on train network products to determine the technical level for the interconnection of train network products produced by different manufacturers. Information technology application research will provide powerful means for the development of information communication products and will be adopted to conduct research on the function verification experiment and trouble simulation experiment for various information communication products, such as wireless synchronized manipulation system and voice recording radio station.

- Research and experiment capacity for critical components will be significantly enhanced.

By means of first class experiments, the Company will be able to eliminate the potential safety hazards, and ensure the quality, of its products and safeguard the safe operation of railways.

The year of 2009 will see a mix of opportunities and challenges. The Group is confident that it will take up favorable opportunities, accelerate its development, and vigorously create greater value for our shareholders. We look forward to sharing our fast growth with you.

Ding Rongjun
*Chairman of the Board*
Zhuzhou, Hunan, PRC
17 April 2009

# Management Discussion and Analysis

The following discussion and analysis should be read in conjunction with the Group's audited financial statements and their notes as set out in this annual report.

## Revenue

| | 2008 (RMB million) | 2007 (RMB million) |
|---|---|---|
| Train power converters, auxiliary power supply equipment and control systems | **1,109.7** | 812.6 |
| Including: | | |
| Locomotives | **347.7** | 275.7 |
| Electric Multiple units | **632.2** | 470.5 |
| Metropolitan rail transportation equipment | **129.8** | 66.4 |
| Train operation safety equipment | **241.3** | 293.3 |
| Electrical control systems for large railway maintenance vehicles | **293.8** | 141.4 |
| Train-borne electrical systems | **1,644.8** | 1,247.3 |
| Power semiconductor components | **217.2** | 122.9 |
| Sensors and related products | **80.9** | 63.6 |
| Other products | **176.4** | 108.0 |
| Electric components | **474.5** | 294.5 |
| Total revenue | **2,119.3** | 1,541.8 |

Revenue increased by RMB577.5 million or 37.5% from RMB1,541.8 million for the year ended 31 December 2007 to RMB2,119.3 million for the year ended 31 December 2008. Revenue of RMB176.4 million from other products in 2008 consisted of revenue from the products of busbar and printed circuit board, etc.

Except for the decrease in revenue from train operation safety equipment, fast growth was seen in revenue from other product categories of the Group in 2008. The Group recorded the strongest growth of RMB297.1 million in revenue of train power converters, auxiliary power supply equipment and control systems. Such increase was mainly due to the delivery of electrical systems for EMUs products, the improvement of power supply system for passenger locomotives and the delivery of electrical systems for Beijing Metro and Shenyang Metro. The second strongest growth of RMB152.4 million was recorded in electrical control systems for large railway maintenance vehicles, mainly due to the increased purchase by the Ministry of Railway of large home-made railway maintenance vehicles with independent intellectual property right. The third strongest growth of RMB 94.3 million was recorded in power semiconductor components, which was due to the further expansion into the high-pressure equipment market such as power system by the Company in 2008 and the revenue of RMB35.3 million contributed by the newly acquired Dynex.

## Cost of sales

Cost of sales increased by 53.9% to RMB1,332.1 million for the year ended 31 December 2008 from RMB865.5 million for the year ended 31 December 2007. The increase in cost of sales was mainly due to the growth in the Group's revenue and the higher proportion of imported components in train operation safety equipment, EMUs and electrical control systems for large railway maintenance vehicles.

## Gross profit

Based on the above factors, the Group's gross profit increased by 16.4% to RMB787.2 million for the year ended 31 December 2008 from RMB676.3 million for the year ended 31 December 2007. The Group's gross profit margin decreased from 43.9% for the year ended 31 December 2007 to 37.1% for the year ended 31 December 2008.

## Other income and gains

Other income and gains of the Group increased by 40.1% to RMB119.4 million for the year ended 31 December 2008 from RMB85.2 million for the year ended 31 December 2007. The increase in other income and gains was mainly due to the increase in investment income from financial instruments and foreign exchange gains. For details of composition of other income and gains, please refer to note 5 to the financial statements.

## Selling and distribution costs

Selling and distribution costs of the Group increased by 6.3% to RMB127.5 million (representing 6.0% of the Group's revenue for the whole year) for the year ended 31 December 2008 from RMB120.0 million (representing 7.8% of the Group revenue for the whole year) for the year ended 31 December 2007. The selling and distribution costs were slightly higher than those in 2007, however, the stronger increase in revenue of the Group in 2008 resulted in a sharp decline in selling and distribution costs as a percentage of the Group's full year revenue.

## Administration expenses

The Group's administration expenses increased by 2.6% to RMB284.4 million for the year ended 31 December 2008 from RMB277.2 million for the year ended 31 December 2007.

## Profit from operations

The Group's profit from operations increased by 47.3% to RMB489.8 million for the year ended 31 December 2008 from RMB332.6 million for the year ended 31 December 2007, which was mainly due to increase in revenue. The Group's operating profit margins for the years ended 31 December 2007 and 2008 were 21.6% and 23.1% respectively.

## Finance costs

Finance costs decreased by 68.8% to RMB1.0 million for the year ended 31 December 2008 from RMB3.2 million for the year ended 31 December 2007. The reduction in finance costs was mainly due to the fact that interest expenses for 2008 decreased as compared with 2007. Finance costs comprised mainly of handling fee and a small amount of loans owed by Dynex in 2008.

## Profit before tax

Based on the above factors, the Group's profit before tax increased by 44.1% to RMB496.8 million for the year ended 31 December 2008 from RMB344.9 million for the year ended 31 December 2007.

## Income tax expenses

The Group's income tax expenses increased from RMB-2.6 million for the year ended 31 December 2007 to RMB73.5million for the year ended 31 December 2008. The Group's income tax expenses comprised effective income tax of RMB79.2 million and deferred tax credit of RMB5.7 million.

In 2008, the Company, Times Electronics, Ningbo Company and Times Guangchuang were recognized as high and new technology enterprises and received the approval from the relevant government authority, thus each of them was subject to the preferential corporate income tax at the rate of 15% from 1 January 2008.

Times Information, Shenyang Company, Times Equipment and Times Zhuoyue were subject to the corporate income tax at the rate of 25%.

The Group's deferred tax credit of RMB5.7 million, which was included in the income statement of the year, was based on the temporary difference in expected deductible expenses calculated in accordance with the applicable tax rates during different periods.

The effective tax rates of the Group for the years ended 31 December 2007 and 2008 were -0.7% and 14.9% respectively.

## Net profit attributable to equity holders of the parent

The Group's net profit attributable to equity holders of the parent increased by 21.6% from RMB347.4 million for the year ended 31December 2007 to RMB422.3 million for the year ended 31 December 2008. The Group's net profit margins for the years ended 31 December 2007 and 2008 were 22.5% and 20.0% respectively.

## Profit and loss attributable to minority interests

Profit and loss attributable to minority interests increased from RMB0.1 million for the year ended 31 December 2007 to RMB1.0 million for the year ended 31 December 2008. The increase was mainly due to the Group's acquisition of 75% interest in Dynex on 31 October 2008, after which Dynex became a subsidiary of the Group. The Group recognized the profit and loss attributable to minority interests of Dynex for the two months ended 31 December 2008.

## Earnings per share

Earnings per share increased RMB0.07 from RMB0.32 for the year ended 31 December 2007 to RMB0.39 for the year ended 31 December 2008.

## Liquidity and source of capital

### Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. The decrease in the Group's cash and cash equivalents in 2008 was mainly due to the use of proceeds from the global offering of shares of the Company in accordance with the scope disclosed in the prospectus and the investments of certain bank loans in financial instruments with principal repayment guaranteed by banks.

### Net cash inflow from operating activities

The Group's net cash inflow from operating activities increased from RMB81.8 million for the year ended 31 December 2007 to RMB 255.4 million for the year ended 31 December 2008, mainly due to the strengthened management of funds recovery by the Group.

### Net cash outflow from investment activities

For the year ended 31 December 2008, the Group's net cash outflow from investment activities was approximately RMB76.1 million. Cash outflow from investment activities represents mainly the payment for bank financial products of RMB400.0 million and payment for the acquisition of plant and equipment of RMB365.2 million. Cash inflow from investment activities represents mainly the recovery of matured fixed deposits of RMB740.0 million.

### Net cash flow from financing activities

For the year ended 31 December 2008, the Group's net cash outflow from financing activities amounted to RMB 153.2 million mainly comprising dividends paid of RMB 157.0 million.

### Liquidity

The Board confirms that the Group has sufficient liquidity to meet the Group's present requirements for liquid funds.

## Commitments

The Group's capital commitments as at the dates indicated are set out as follows:

| | As at 31 December | |
|---|---|---|
| | **2008 (RMB million)** | 2007 (RMB million) |
| Contracted but not provided: | | |
| Purchase of items of property, plants and equipment | **167.8** | 114.2 |
| Purchase of items of other intangible assets | **113.7** | 142.2 |
| Acquisition of an associate | **—** | 20.0 |
| Total | **281.5** | 276.4 |

## Indebtedness

The Group's indebtedness as at the dates indicated is set out as follows:

| | As at 31 December | |
|---|---|---|
| | **2008 (RMB million)** | 2007 (RMB million) |
| Interest-bearing bank and other borrowings | **24.4** | — |

## Gearing ratio

The Group monitors capital using the gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent. The Group's gearing ratio was -53% as at 31 December 2007 and -5% as at 31 December 2008. The change in the gearing ratio was mainly attributed to the continuous use of proceeds from the global offering of shares of the Company in accordance with the scope disclosed in the prospectus which led to a decrease in cash and cash equivalents.

## Contingent liabilities

The Group is not involved in any material litigation, and to the best of the Group's knowledge, there is no pending or potential material litigation in which the Group will be involved.

## Market risks

The Group is subject to various market risks, including interest rate risk, foreign exchange risk and inflation risk in the ordinary course of its business. Details of the risks are set out in note 44 to the financial statements.

# Directors, Supervisors and Senior Management

## Directors

**Ding Rongjun**, aged 48, the Chairman of the Board and an executive Director. Mr. Ding joined the Parent Group in August 1984 and held the positions of deputy director and project manager of the scientific research division of ZELRI from 1999 to 2000, and the positions of deputy director, deputy chief engineer and chief engineer of ZELRI between 2000 and 2005. Mr. Ding graduated from Southwest Jiaotong University with a bachelor degree in 1984 and from Changsha Railway Institute with a master degree in 1996. Mr. Ding served as the president of the Company from September 2005 to December 2007, and then joined ZELRI as the secretary of the Party and deputy director in December 2007. He has been the secretary of the Party and vice general manager of ZELRI from January 2008 to December 2008, general manager and vice secretary of the Party of ZELRI since December 2008 and a director of Times New Materials since December 2008. Mr. Ding has been an executive Director of the Company since September 2005, and has been the Chairman of the Board of the Company since December 2007.

**Song Yali**, aged 56, the Vice Chairman of the Board and a non-executive Director. Mr. Song is a senior economist. He joined ZELRI in January 1983 and has held the positions of supervisor of the production control room, deputy supervisor of the trial production department, head of the production operations department and chairman of the labour union. Mr. Song has been a director of Times New Materials since April 2005, and chairman of the board of directors of Times New Materials from April 2005 to March 2008. Mr. Song was the deputy director of ZELRI from November 2005 to January 2008. He has been a vice general manager of ZELRI since January 2008. Mr. Song graduated from the Party School of the Central Committee majoring in Economic Management in 1998. Mr. Song was appointed as the Vice Chairman of the Board and a non-executive Director of the Company in December 2007.

**Lu Penghu**, aged 43, an executive Director, the president and joint company secretary. Mr. Lu is a current director of Time Electronics, Ningbo Company, Times Equipment, Shenyang Company and Baoji Times. Mr. Lu joined the Parent Group in November 1990 and has held the positions of deputy director of PCB Factory, director of the general office and director of planning and development department of ZELRI. Mr. Lu graduated from Lanzhou University in 1989 majoring in Journalism. He also obtained a bachelor degree in law from Xiangtan University in 2001, and a master degree in Software Engineering from Wuhan University in 2005. Mr. Lu was the chief administration officer and secretary of the Board and chairman of the labour union of the Company from September 2005 to December 2007. He served as the Party secretary of the Company from January to December 2007 and was appointed the chairman of Dynex in September 2008. Mr. Lu was appointed as an executive director of the company in November 2006, and was appointed as the president of the Company in December 2007.

# Directors, Supervisors and Senior Management

**Liao Bin**, aged 46, a non-executive Director. Mr. Liao joined ZELRI in August 1983 and has held the positions of general manager of Zhuzhou Times Rubber & Plastics Co. Ltd. from 1998 to 2000, a director of Times New Materials since 2000, deputy director of ZELRI and general manager of Times New Materials from 2000 to 2001, deputy director of ZELRI and chairman of the board of directors of Times New Materials from 2001 to 2004, and director of ZELRI from 2004 to January 2008. Mr. Liao has been an executive director of ZELRI since January 2008 and was a general manager and vice secretary of the Party of ZELRI from January 2008 to December 2008. Mr. Liao graduated from South China University of Science and Engineering with a bachelor degree in 1983 and completed his master degree in Business Administration at the Institute of Commerce of Hunan University in 1996. Mr. Liao served as an executive Director and the Chairman of the Board of the Company from September 2005 to November 2006, and was appointed as a non-executive Director of the Company in November 2006. He resigned as the Chairman of the Board of the Company in December 2007.

**Ma Yunkun**, aged 55, a non-executive Director. Mr. Ma has more than 10 years of experience in business management and is the chairman of the board of directors and general manager of Kunming China Railway since 2004. Mr. Ma has been the deputy director of Kunming Machine Factory from 1994 to 2003 and the director and general manager of Kunming China Railway from 2003 to 2004. Mr. Ma was appointed as a non-executive Director of the Company in September 2005.

**Gao Yucai**, aged 68, an independent non-executive Director. Mr. Gao is a senior engineer and has more than 20 years of experience in the urban rail transportation industry. Mr. Gao was deputy director of the Beijing Public Utility Bureau from 1983 to 1990 and general manager of Beijing Metro Corporation from 1990 to 2001. Mr. Gao is a commissioner of the China Communication and Transportation Association ("CCTA") and deputy director of the urban rail transportation committee of CCTA. Mr. Gao graduated from the PLA Engineering Academy (one of the predecessors of PLA University of Science and Technology) in 1966. Mr. Gao was appointed as an independent non-executive Director of the Company in November 2006.

**Chan Kam Wing**, **Clement**, aged 51, an independent non-executive Director. Mr. Chan is a certified public accountant in Hong Kong, a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan possesses the appropriate financial management expertise as required by the Listing Rules. Mr. Chan has been the Asia Pacific regional director of Horwath International and the managing director of Horwath Hong Kong CPA Limited since 1996. Prior to that, Mr. Chan operated his own accounting firm. Mr. Chan was appointed as a member of the auditing team of Beijing 2008 Olympics Organizing Committee in 2003. Mr. Chan graduated from City University of London with a bachelor degree in Accounting and a master degree in Commerce from the University of New South Wales. Mr. Chan was appointed as an independent non-executive Director of the Company in September 2005.

# Directors, Supervisors and Senior Management

**Pao Ping Wing**, aged 61, an independent non-executive Director. Mr. Pao was a fellow of the Hong Kong Institute of Directors. Mr. Pao is an independent non-executive director of Oriental Press Group Limited, UDL Holdings Limited, Sing Lee Software (Group) Limited, Maoye International Holdings Limited and Hembly International Holdings Limited, and also the vice chairman of Biomax Environment Holdings Limited, Maoye International Holdings Limited. Mr. Pao was appointed as a Justice of Peace since 1987. Mr. Pao was appointed by The Government of the Hong Kong Special Administrative Region as a member of the Town Planning Board, the Advisory Council on the Environment, the Hong Kong Housing Authority and the Land Development Corporation. Mr. Pao obtained a master degree in Science of Human Settlement Planning and Development. Mr. Pao was appointed as an independent non-executive Director of the Company in September 2005.

**Tan Xiao'ao**, aged 45, an independent non-executive Director. Mr. Tan has been a practising lawyer in the PRC since 1989 and a professor of law at the law faculty of the Central South University and Hunan University since 2003. Mr. Tan was director of the Jiaoyang Law Office from 1996 to 2002, legal counsel of Hunan Taizinai Group from 2002 to date, deputy chairman of the board of directors, director and general manager of Hunan Taizinai Group Bio-tech Company Limited from 2004 to 2008. Mr. Tan graduated from Zhongshan University with a bachelor degree in Law in 1987 and received a master degree in Executive Master in Business Administration from Tsinghua University in 2006. Mr. Tan was appointed as an independent non-executive Director of the Company in June 2006.

**Liu Chunru**, aged 38, an independent non-executive Director. Ms. Liu is a certified asset valuer. Ms. Liu was the vice president of Beijing China Enterprise Appraisal Co., Ltd. and has been a deputy general manager of Zhongfa International Appraisal Co., Ltd. since 2003. Ms. Liu graduated from Chongqing University with a bachelor degree in Engineering in 1994 and graduated from Tsinghua University with Master degree in Business Administration in 2008. Ms. Liu was a supervisor of the Company from September 2005 to April 2008. Ms. Liu was appointed as an independent non-executive Director of the Company in June 2008.

## Supervisors

**Zhang Liqiang**, aged 46, a supervisor and the chairman of the supervisory committee. Mr. Zhang joined the Parent Group in May 2005 and is a senior accountant. Mr. Zhang was the chief accountant of ZELRI from May 2005 to January 2008. He has been a vice general manager and chief financial officer of ZELRI since January 2008. Mr. Zhang was the chairman of the supervisory committee of Times New Materials from May 2006 to December 2008 and has been a director of Times New Materials since December 2008. Mr. Zhang was deputy director and the director of accounting department and the director of the audit department in CSR Zhuzhou Electric Locomotive Works from 1996 to 2005. Mr. Zhang graduated from Hubei Finance and Economics Institute with a bachelor degree in Financial Accounting in 1983. Mr. Zhang was appointed as a supervisor of the Company in September 2005.

**Pang Yiming**, aged 45, a supervisor. Mr. Pang is the director of the marketing management department of the Company. Mr. Pang joined the Parent Group in October 1982 and has held positions of the assistant to the general manager of the manufacturing centre of ZELRI and the deputy general manager, chief production officer and director of the production department of Time Electronics. Mr. Pang has been the assistant to director and deputy general manager of the marketing management department of marketing center of the Company from January 2007 to January 2009. Mr. Pang was appointed as director of Times Guangchuang from September 2005 to August 2008. Mr. Pang was appointed as the director of the marketing management department of the Company since January 2009.Mr. Pang graduated from Central South University in 2004 after a three-year study in management and engineering.  Mr. Pang was appointed as a supervisor of the Company in September 2005.

**Liu Ke'an**, aged 38, a supervisor. Mr. Liu is a senior engineer. He joined ZELRI in August 1994 and held various positions as engineer, chief engineer, senior engineer, chief designer. He graduated from the Department of Electrical Engineering of Tongji University with a bachelor degree in engineering. He has been appointed as head of the systems project department, head of the transmission technology department, deputy director and director of the technology centre of the Company since September 2005. Mr. Liu is a current director of Times Equipment. Mr. Liu was appointed as a supervisor of the Company in December 2007.

**Shuai Tianlong**, aged 43, an independent supervisor. Mr. Shuai is a practising lawyer in China. From September 1992 to September1995, Mr. Shuai was a lecturer at the School of Political Science and Law of the Hebei Normal University. From July 1995 to July 1999, he served as the consultant at Deputy Director level in the Central Commission for Disciplinary Inspection of the Communist Party of China and the Ministry of Supervision of China. From 1999 to date, he has been working for Jingtian & Gongcheng in Beijing and is currently one of its partners. Mr. Shuai graduated from the Peking University in July 1987, July 1990 and July 1995 respectively with Bachelor of Laws, Master of Laws and Doctor of Laws degrees. Mr. Shuai was appointed as an independent supervisor of the Company in June 2008.

**Wang Kun**, aged 33, an independent supervisor. Ms. Wang has been a lecturer at the Department of Accountancy of Economics and Management of the Tsinghua University since 2003. Ms. Wang graduated from the Department of Accountancy of Nankai University in July 1998 with a bachelor's degree in Management Science. She graduated from the Department of Accountancy of the School of Business and Management of Hong Kong University of Science and Technology in January 2003 with a doctorate degree in Accountancy. Ms. Wang was appointed as an independent supervisor of the Company in June 2008.

## Senior Management

**Lu Penghu**, aged 43, an executive Director, the president and joint company secretary. His biographical details are set out above.

**Li Donglin**, aged 42, vice president and secretary of the Party. Mr. Li joined ZELRI in July 1989 and has been a deputy chief engineer, deputy general manager of the rail transport department, director of the manufacturing centre, deputy general manager of the sales and marketing centre of ZELRI. Mr. Li graduated from Southwest Jiaotong University with a bachelor degree in Electric Traction and Transmission Control in 1989. He has served as the chief marketing officer from September 2005 to December 2007. He was appointed as the vice president and secretary of the Party of the Company in December 2007.

**Feng Jianghua**, aged 45, vice president and chief technology officer. Mr. Feng is a senior engineer of professor level. He joined ZELRI in August 1989 and has held positions of deputy chief engineer, director of the research and development center and director of the system integration department in ZELRI. Mr. Feng graduated from Zhejiang University with a bachelor degree in electric engineering in 1986 and a master degree in Electric Engineering in 1989. He has served as the chief technology officer of the Company since September 2005. He was appointed as the vice president and chief technology officer of the Company in December 2007 and was appointed as director of Dynex since September 2008.

**Jiang Yi**, aged 38, chief marketing officer. Mr. Jiang joined ZELRI in August 1992 and has held the positions of general manager and deputy general manager of the research and development department, director of the human resources department, director of the quality and service department, director of the after-sale service department and deputy director of the manufacturing centre of ZELRI. Mr. Jiang graduated from the Northern Jiaotong University (now known as Beijing Jiaotong University) with a bachelor degree in Electric Traction and Transmission Control in 1992. Mr. Jiang served as a supervisor of the Company from September 2005 to December 2007. He also served as general manager of the technology centre of the Company from September 2005 to December 2007 and the deputy chief engineer of the Company from January 2007 to December 2007, and was appointed as the chief marketing officer of the Company in December 2007.

**Chen Mingjun**, aged 36, chief financial officer. Mr. Chen is a senior accountant. Mr. Chen joined ZELRI in August 1996 and has been the head of the financial accounting team and deputy director of the accounting department. Mr. Chen was the general manager of Times Investment Co. from April 2003 to December 2006 and the chief financial officer of New Business Unit of ZELRI from June 2004 to December 2006 concurrently. He served as the deputy general manager of Times Investment from January to July 2007, and was the chief financial officer of Times Electric Vehicle from August to December 2007. He graduated from the Department of Accountancy of Hunan Institute of Finance and Economics with a bachelor degree in Economics in 1996. Mr. Chen was appointed as the chief financial officer of the Company in December 2007.

# Directors, Supervisors and Senior Management

**Liang Yuguo**, aged 47, chief executive officer. Mr. Liang joined ZELRI in 1983 and has been the deputy director, director and department head of the Testing Center of ZELRI. He has served as a deputy director and general secretary of the Party branch of the research and development centre of ZELRI from April 2002 to September 2004. He was the general manager of the new business unit of ZELRI from September 2004 to December 2005, assistant to the general manager of the headquarters business of ZELRI and the general manager of the new business unit of ZELRI from January 2006 to January 2007. Mr. Liang graduated from the Department of Locomotive Electrical Transmission of the Shanghai Railway Academy with a bachelor degree in Engineering in 1983, and obtained a master degree in Engineering from the Department of Traffic Information Engineering and Control of the Central South University in 2002. He graduated from the Zhongnan University of Economics and Law with major in Business Administration in July 2006. Mr. Liang served as the general manager of the safety equipment business unit of the Company from February to December 2007, and an as assistant to the president of the Company from December 2007 to 2008. He was appointed as the chief executive officer of the Company in January 2009.

**Yan Wu**, aged 42, secretary of the Board. Mr. Yan is a senior engineer. Mr. Yan joined ZELRI in 1992. Mr. Yan graduated from Northwestern Polytechnical University with a bachelor degree in Electro-Technology in 1989 and a master degree in Aircraft Navigation and Control in 1992. Mr. Yan served as head of technical standards department of the Company from September 2005 to December 2007, and was appointed as head of the investor relations department of the Company in January 2007. Mr. Yan has served as the general secretary of the National Electric Traction Equipment and System Standardization Technical Committee since September 2005. Mr. Yan was appointed as the secretary of the Board of the Company in December 2007.

**Tang Tuong Hock, Gabriel**, aged 56, the qualified accountant and joint company secretary. Mr. Tang has been a member of the Institute of Chartered Accountants in England and Wales since 1981 and is also a member of the Chartered Association of Certified Accountants in the United Kingdom. Mr. Tang has more than 20 years of experience in accounting and management in various industries. He was appointed as the qualified accountant and joint company secretary of the Company in July 2006.

# Corporate Governance Report

The Company has always been dedicated to improving its corporate governance, and to maximizing long-term shareholder value by increasing the Group's accountability and transparency through strict implementation of corporate governance.

## I Corporate Governance Practices

The Company places great emphasis on the authority, dependability and prudence of its corporate governance. For the reporting period ended 31 December 2008, the Company has adopted all the relevant provisions contained in the CG Code set out in Appendix 14 of the Listing Rules and has complied with all other provisions of the CG Code.

The Board of Directors makes every effort to comply with the CG Code in order to protect and enhance interests of the Company's shareholders. As the Company continues to grow, in order to ensure compliance with relevant regulations and standards, the Company will monitor and, when necessary, revise its corporate governance policy on an ongoing basis.

In accordance with relevant laws and regulations, the Company has set up a structure in which corporate governance mechanisms such as shareholders' general meetings, the Board, special committees of the Board, the Supervisory Committee and powers of the management check and balance one another. The divisions of responsibilities among the shareholders' general meeting, the Board, special committees of the Board, the Supervisory Committee and the management are distinct, and each of them is assigned with clearly defined responsibilities. The Board has delegated the execution and daily operations of the Group's business to the management. However, clear directions are given to the management as to the matters that must be approved by the Board before decisions are made on behalf of the Group. The Company will continue to perfect its corporate governance mechanism, exercise discipline in the fulfilment of corporate duties, and strengthen the disclosure of information concerning its operations.

## II Securities Transactions by Directors

The Company adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct for Directors' securities transactions.

Having made specific inquiries in relation to the compliance with "Model Code" for securities transactions by Directors, the Company confirmed that all the Directors have complied with the relevant standards for securities transactions by directors set out in the Model Code during the reporting period.

## III Board of Directors

### 1. Composition of the Board

The Board of Directors of the Company consists of ten Directors, among whom Mr. Ding Rongjun is the Chairman of the Board and an executive Director; Mr. Song Yali is the Vice Chairman and a non-executive Director; Mr. Lu Penghu is an executive Director and the president; Messrs. Liao Bin and Ma Yunkun are non-executive Directors; and Messrs. Gao Yucai, Chan Kam Wing, Pao Ping Wing and Tan Xiao'ao and Ms. Liu Chunru are independent non-executive Directors.

During the reporting period, the re-election of the members of the Board was approved by the shareholders at the Company's annual general meeting for the year 2007 held on 27 June 2008. The former Directors, namely Messrs. Ding Rongjun, Song Yali, Lu Penghu, Liao Bin, Ma Yunkun, Gao Yucai, Chan Kam Wing, Pao Ping Wing and Tan Xiao'ao were re-elected, while the former Director Mr. Zhou Heliang did not seek for re-election due to his age and Ms. Liu Chunru was elected as his replacement.

The Company has entered into service contracts with all Directors for a term of three years. The contracts shall remain valid for a term of three years or for a shorter period as may be decided upon at the re-elections of the Directors at the general meeting. Notice for termination of Directors' service contracts given by any party shall be for a minimum of three months.

The Directors have strictly complied with their undertakings, and have been honest, trust-worthy and diligent in the performance of their duties. The number of Directors and the composition of the Board comply with relevant laws and regulatory requirements. There is no relationship between the members of the Board (especially between the Chairman and the Chief Executive), including any financial, business, familial or other material relevant relationship.

The Company has received annual confirmation from Messrs. Gao Yucai, Chan Kam Wing, Pao Ping Wing, Tan Xiao'ao and Ms. Liu Chunru of their independence, and considers that they are still independent as of the date of this report.

## 2. Board Meetings and Directors' attendances at Board Meetings

During the reporting period, the Company held eight Board meetings, of which four were interim Board meetings.

The following is the attendance record of Directors at Board meetings held during the reporting period.

| Name | Title | Number of Board meetings that the Director should have attended | Number of Board meetings attended by the Director | Attendance Rate | Remarks |
|---|---|---|---|---|---|
| Ding Rongjun | Chairman of the Board and Executive Director | 8 | 8 | 100% | |
| Song Yali | Vice Chairman and Non-Executive Director | 8 | 8 | 100% | |
| Lu Penghu | Executive Director | 8 | 8 | 100% | |
| Liao Bin | Non-Executive Director and the president | 8 | 8 | | |
| Ma Yunkun | Non-Executive Director | 8 | 8 | 100% | Attended the first meeting of the second term of the Board in June 2008 by proxy |
| Zhou Heliang | Independent Non-Executive Director | 3 | 3 | 100% | Attended the thirteenth meeting of the first term of the Board in April 2008 by proxy and retired as Director of the Company in June 2008 |
| Gao Yucai | Independent Non-Executive Director | 8 | 8 | 100% | |
| Chan Kam Wing | Independent Non-Executive Director | 8 | 8 | 100% | |
| Pao Ping Wing | Independent Non-Executive Director | 8 | 8 | 100% | |
| Tan Xiao'ao | Independent Non-Executive Director | 8 | 8 | 100% | |
| Liu Chunru | Independent Non-Executive Director | 5 | 5 | 100% | Appointed as Director of the Company in June 2008 |

### 3. Operation of the Board

The Board of Directors is responsible to the shareholders' general meetings in relation to the leadership and monitoring of the Company. The Board convened regular and interim meetings in accordance with legal procedures and complied strictly with relevant laws, legal regulations and the Articles in the exercise of its authority, with an emphasis on protecting the interests of the Company and its shareholders.

All Directors are given not less than 10 days' advance notice of regular Board meetings and are given reasonable advance notice of Board meetings other than regular meetings.

The secretary to the Board records and prepares documents concerning all matters that are discussed during the Board meetings. Draft minutes of every Board meeting are circulated to all Directors for their review. After finalization, the Board minutes are signed by all Directors who have attended the meeting, the secretary to the Board and the minutes recording person. These documents are permanently kept as an important record of the Company on the Company's premises.

The Board of Directors is responsible to the shareholders' general meetings and it principally exercises the following authorities:

(1) Convening shareholders' general meetings and reporting on its work at shareholders' general meetings;

(2) Executing resolutions of the shareholders' general meetings;

(3) Making decisions on operational plans and investment schemes;

(4) Formulating annual financial budget and final accounts;

(5) Formulating profit distribution scheme and scheme for loss compensation;

(6) Proposing schemes for major outward investments, major acquisitions or disposals, mergers, divisions or dissolution of the Company; and

(7) Proposing amendments to the Articles.

All Directors have access to the advice and services of the company secretary. The Company provides all Directors with the necessary information and data to enable them to make scientific, timely and prudent decisions. Any Director can request the Chief Executive, or, through the Chief Executive, request the Company's relevant department to provide him with any necessary information and explanation to enable him to make scientific, timely and prudent decisions. If any of the independent Directors considers necessary, an independent institution can be engaged to provide independent opinions to assist his decision-making. The Company is responsible for arranging the engagement of the independent institution at expenses of the Company.

Director(s) with a vested interest in any transaction cannot participate in the vote that the Board takes with respect to that particular transaction. If a resolution cannot be passed due to the Director(s) abstaining from voting, the resolution will be submitted directly to the shareholders' general meeting for consideration by the shareholders.

## 4. Specialised Committees of the Board

The Company has established separate strategy, audit, risk management, nomination and remuneration committees. The function of each specialised committee is to study pertinent issues in its area of expertise and to provide opinions and suggestions for consideration by the Board.

### *a Strategy committee*

The Company's strategy committee was established in October 2005. It currently consists of four Directors, one of whom is an independent non-executive Director. The members of the strategy committee are Messrs. Liao Bin, Ding Rongjun, Lu Penghu and Gao Yucai. Mr. Liao Bin is the strategy committee's chairman.

The main responsibilities of the strategy committee are:

(1) to provide study reports to the Board in respect of governmental policies and industrial trends;

(2) to conduct strategic research concerning the Group;

(3) to review and assess major investment and financial strategies;

(4) to review major capital expenditure projects.

The strategy committee convened one meeting during the reporting period. Main issues such as the work report of the strategy committee and annual investment plans of the Company were discussed at such meeting.

### *b Audit committee*

The Company's audit committee was established in October 2005. It currently consists of six Directors, five of whom are independent non-executive Directors. The committee's members are Messrs. Chan Kam Wing, Pao Ping Wing, Gao Yucai, Tan Xiao'ao, Liu Chunru and Ma Yunkun. Mr. Chan Kam Wing is the audit committee's chairman.

The main responsibilities of the audit committee are: to consider and supervise financial reporting processes and internal control procedures of the Company, to exercise its authority to guide and supervise internal audits and to make suggestions about the appointment or change of external audit firm.

The audit committee held five meeting during the reporting period. These meetings mainly discussed issues concerning the Company's annual results, half yearly results, connected transactions, internal audit and internal controls related issues, etc. Following is the record of attendance of committee members.

| Committee member | Attendance rate for meetings held during the year ended 31 December 2008 |
|---|---|
| Chan Kam Wing | 5/5 |
| Pao Ping Wing | 5/5 |
| Zhou Heliang | 2/2 |
| Gao Yucai | 5/5 |
| Tan Xiao'ao | 5/5 |
| Liu Chunru | 3/3* |
| Ma Yunkun | 5/5 |

*Note: Mr. Zhou Heliang ceased to be a member of the audit committee on 27 June 2008 due to the expiration of his term. Ms. Liu Chunru was elected as a member of the audit committee at the first meeting of the second term of the Board held on 27 June 2008.

The Company has established an audit division with relatively independent internal audit functions. The audit division is under the work guide and supervision of the audit committee, and reports its work to the audit committee.

### *c Risk management committee*

The Company's risk management committee was established in June 2006. It currently consists of three Directors, two of whom are independent non-executive Directors. The members of the risk management committee are Messrs. Song Yali, Chan Kam Wing and Tan Xiao'ao. Mr. Song Yali is the risk management committee's chairman.

The main responsibility of the risk management committee is to formulate, assess and revise risk management strategies.

The risk management committee held two meetings during the reporting period. At such meeting, the committee mainly discussed issues concerning corporate governance reporting and internal monitoring.

### *d Nomination and remuneration committee*

The Company's remuneration committee was established in October 2005, and changed its name to nomination and remuneration committee of the Board of Directors at the first meeting of the second term of the Board held on 27 June 2008. It currently consists of five Directors, three of whom are independent non-executive Directors. The committee members are Messrs. Pao Ping Wing, Ding Rongjun, Lu Penghu, Tan Xiao'ao, and Liu Chunru. Mr. Pao Ping Wing is the nomination and remuneration committee's chairman.

The main responsibilities of the nomination and remuneration committee are to responsible for nominating and appraisal works of Directors and senior management members, consider the remuneration and benefits paid to them and to make recommendations to the Board about any related adjustments.

During the reporting period, the Company convened two nomination and remuneration committee meetings. Remuneration of the Directors and the senior management, the allowance scheme of the Directors and supervisors and research and analysis report of the Company's current remunerations were the main issues discussed at such meetings.

## IV Chairman and Chief Executive

The offices of the Chairman and the Chief Executive of the Company are held by Mr. Ding Rongjun and Mr. Lu Penghu, respectively. The division of responsibilities between them has been clearly established and set out in writing. The Chairman is responsible for running the Board and chairing Board meetings whereas the Chief Executive is responsible for the Company's day-to-day operations.

According to the Articles, the Chairman exercises the following authorities:

(1) To preside over shareholders' general meetings, and to convene and preside over Board meetings;

(2) To monitor the implementation of the Board's resolutions;

(3) To sign securities issued by the Company; and

(4) Other authorities conferred on him by the Board.

The Chief Executive is responsible to the Board of Directors. The Chief Executive and the management team under his leadership have the following authorities:

(1) Management of the Company's manufacturing and sales operations and the implementation of the Board's resolutions;

(2) Implementation of the Company's annual operational plan and investment strategies;

(3) Establishment of the Company's internal management mechanisms;

(4) Establishment of the Company's basic management systems;

(5) Formulation of the Company's basic regulations;

(6) Proposing the appointment and dismissal of deputy chief executive, chief supervisor and assistant to the chief executive of the Company;

(7) Appoint or dismissing management staff, except those who should be appointed or dismissed by the Board; and

(8) Making proposals concerning wages, benefits, bonuses and penalties for employees, and deciding on the promotion or demotion, increases or decreases in salary, appointment, employment, termination of employment or dismissal of employees.

## V Non-executive Directors

According to the Articles, the Company's non-executive Directors are elected at shareholders' general meetings for a term of three years. Upon retirement, non-executive Directors are eligible for re-election.

## VI Nomination of Directors

Directors are elected at the shareholders' general meetings in accordance with the Articles. Written notice of intention to nominate a candidate for the post of Director and the candidate's agreement to be nominated must be given to the Company after the date of the notice of the annual general meeting and at least seven days prior to the convening of the annual general meeting.

## VII Remuneration of the Auditors

For the year ended 31 December 2008, the Company appointed Ernst & Young to provide annual results auditing and interim results review services to the Company. Ernst & Young also provided quarterly auditing service for connected transactions and merger and acquisition due diligent service for the Company. Details of the external auditors' remuneration of the Company are as follows:

| Service provided: | For the year ended 31 December 2008 (RMB'000) |
|---|---|
| Annual results auditing service | 4,500 |
| Interim results review service | 800 |
| Quarterly auditing service for connected transactions | 480 |
| Merger and acquisition due diligent service | 3,789 |

Note: Annual results auditing service includes auditing service provided to all companies under the Group (other than overseas subsidiaries) in accordance with the accounting standard of the PRC. The above auditing and review service included advance for operation tax fees and transportation fees etc.

## VIII Directors' Responsibilities in respect of the Financial Reports

The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2008.

The Directors also confirm that there were no major unexpected events or conditions that would have a significant impact on the continuity of the Company's operations.

## IX Internal Controls

The Directors are responsible for maintaining a reliable and effective internal control system. The Company has established an internal audit department with relatively independent internal audit functions. An audit committee and a risk management committee have also been established and are responsible to the Board. The Directors are in a position to supervise, assess and improve the Company's internal controls at all levels of management, so as to ensure that the Company can withstand changes in its operations and other external influences on its financial, operational and risk management, in order to safeguard the Company's assets and promote shareholders' interests.

During the reporting period, the Company further enhanced its internal control system, strengthened awareness on risk management, regulated work flows, promoted construction of ERP system and improved risk management; at the same time, the Company emphasised financial management and control functions of the Group, enhanced construction of financial system, strengthened audit function, stabilized investment procedures, and fully reinforced supervision efforts. Through series of measures, both internal management and operational efficiency of the Group have been significantly improved. The Board of Directors of the Company review its internal control system from time to time and consider that the internal control system of the Company is effective, resources in accounting and financial reporting functions, qualifications of staff and their experience are sufficient and training courses received by staff and related budgets are adequate.

## X Compliance with the Non-competition and Indemnity Agreements by the Controlling Shareholders

ZELRI, the controlling shareholder of the Company, and the CSRG, the ultimate controlling shareholder (hereinafter referred to as "Controlling Shareholders"), have each submitted their "explanations regarding the implementation of the non-competition and indemnity agreement in 2008" to the Company respectively, declaring that they had complied with the terms of the said agreements. The independent non-executive Directors have also reviewed the implementation of the non-competition and indemnity agreements by the Controlling Shareholders in 2008. The independent non-executive Directors consider that the Parent Group and the CSRG Group had complied with the terms of the non-competition and indemnity agreements. The respective businesses of the Parent Group and the CSRG Group were independent of the Group's business, employing different technologies, have different customers, which will not result in any competition with the Group. The Directors were able to uphold the interests of the Company and its shareholders, and operated and managed the Company's business independently.

## XI Relationship with Investors

The Company places great emphasis on communication with investors and has established a specialised department to handle affairs regarding relationship with investors. When investors come to visit the Company, special reception and site visit will be arranged in this regard. The Company actively participates in various meetings concerning relationship with investors and organises the management to conduct overseas roadshows, so as to enable investors to have better understanding about our business strategy and development plan.

During the reporting period, The Company has disclosed all necessary information to the shareholders in compliance with the Listing Rules and the Articles. We have reported to our shareholders and investors through various formal channels, which include (1) publishing interim and annual reports; (2) holding annual general meeting or extraordinary general meeting to provide a platform for shareholders to express their opinions and their communication with the Board; (3) holding press conference and investors conferences from time to time; (4) organising the management to conduct overseas roadshows; (5) publishing announcements on the website of the Stock Exchange and the Company; and (6) responding to the queries from shareholders and investors in a timely manner.

The Company will continue to strive to enhance our relationship with investors, so as to further enhance our transparency.

# Directors' Report

The Board of Directors of the Company are pleased to present the Directors' Report and audited financial statements of the Company and the Group for the year ended 31 December 2008.

## The Company's business activities

The Group is mainly engaged in the research, development, manufacture and sales of locomotive train power converters, control systems and other train-borne electrical systems, as well as the development, manufacturing and sales of urban railway train electrical systems. In addition, the Group is also engaged in the design, manufacturing and sales of electric components for the railway industry, urban railway industry and non-railway purposes.

There have been no significant changes in the nature of the Group's key operations during the reporting period.

## Results and dividends

Results of the Group for the year ended 31 December 2008, prepared in accordance with International Financial Reporting Standards ("IFRSs"), are set out on page 45 to page 125 of this annual report.

Based on the lower of the Company's net profit calculated under Generally Accepted Accounting Principles ("GAAP") of PRC and IFRSs, the Company has distributable profits (before the proposed final dividend) of RMB371,736,000 as at 31 December 2008. The Board of Directors of the Company proposed distribution of a cash dividend of RMB0.155 per share (including applicable tax) for the year.

Pursuant to the provisions of the Enterprise Income Tax Law of the People's Republic of China and the Implementing Regulations of the Enterprise Income Tax Law of the People's Republic of China, effective from 1 January 2008, any PRC domestic enterprise shall withhold the enterprise income tax of 10% upon the distribution of dividends payable to the shareholders being non-resident enterprises (legal persons) for accounting periods starting from 1 January 2008, and the payer shall serve as the withholding agent. The Company will strictly abide by the law and identify all shareholders who are subject to the withholding and payment of enterprise income tax, whose names appear in the Company's register of members as holders of H shares on the record date and who are not individuals (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or organisations which are all considered as non-resident enterprise shareholders). The Company will distribute the dividends to the relevant shareholders after deducting enterprise income tax at the rate of 10%. The proposed dividend to be distributed is subject to the approval of the shareholders at the annual general meeting to be held on 23 June 2009.

The dividends is payable to shareholders whose names appear on the register of members at the close of business on 22 May 2009. The Company's share register will be closed from 25 May 2009 to 23 June 2009 (both days inclusive), during which period no transfer of shares will be registered.

In respect of the distribution of dividends, dividends for domestic shares will be distributed and paid in Renminbi, while dividends for H shares will be declared in Renminbi and paid in Hong Kong dollars. (The Hong Kong dollars equivalent shall be calculated at the average middle exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China five working days prior to the declaration of dividend at the annual general meeting to be held on 23 June 2009).

## Use of proceeds from the Company's initial public offering

The Company issued 414,644,000 H shares (including H shares issued via the exercise of the over–allotment option) in the initial public offering in December 2006. The issue price was HK$5.30 per share, the proceeds amounted to approximately HK$2,197,613,000 (equivalent to RMB2,209,968,000). The net proceeds from the initial public offering after deducting share issuing expenses amounted to RMB2,109,852,000. All the proceeds were received by the Company on 28 December 2006. As at 31 December 2008, approximately RMB1,230.97 million has been applied to intended uses as set out in the Company's prospectus, details of which are set out below:

(1) Approximately RMB716.78 million for investments in train power converters, auxiliary power supply equipment and control systems;

(2) Approximately RMB60.60 million for investments in train operation safety equipment;

(3) Approximately RMB30.52 million for investments in importation of technology and development of a new generation of railway maintenance vehicles;

(4) Approximately RMB204.84 million for investments in large size power semi-conductor devices;

(5) Approximately RMB66.94 million for investments in sensors and related products;

(6) Approximately RMB83.29 million for other areas;

(7) Approximately RMB60.82 million for supplementing working capital; and

(8) Approximately RMB7.18 million for acquisition of 13% equity interest in Zhuzhou Siemens which is different from the intended use.

The Company used part of the proceeds, which was intended for operating capital, to fund the purchase of 12% and 1% interest in Zhuzhou Siemens held by CSR Zhuzhou and Siemens Ltd., China respectively. Details are set out in the Company's announcement in relation to connected transactions dated 16 September 2008. Save for that, as of 31 December 2008, the usages of proceeds did not differ from those disclosed in the Prospectus.

## Financial Highlights

### Property, plant and equipment

Details of the changes in the property, plant and equipment of the Company and the Group during the year are set out in note 14 to the financial statements.

### Borrowings

Details of the Group's borrowings as at 31 December 2008 are set out in note 32 to the financial statements.

### Share Capital

There were no movements in the share capital of the Company during the year.

## Stock Options of Dynex

Dynex, a 75% owned subsidiary of the Company having its issued shares listed on the TSX Venture Exchange, adopted a stock option plan (the "Plan") for the purpose of developing the interest and incentive of eligible participants in the growth and development of Dynex and increasing the ability of Dynex to attract and retain skilled and motivated individuals. Participation in the Plan is limited to directors of Dynex, officers and full time permanent or contract employees of Dynex or its subsidiaries, and consultants engaged to provide ongoing bona fide consulting services to Dynex (collectively, the "Participants"). The Plan was adopted on 4 June 2002 and, unless otherwise discontinued or amended, will remain in force for a period of 10 years therefrom.

The maximum number of common shares of Dynex which may be issued under the Plan (the "Option Shares") (subject to adjustment as provided therein) shall not exceed 2,657,316 shares, representing 6.61% of the issued share capital of Dynex as at 31 December 2008. The aggregate number of Option Shares which may be issued to insiders (as defined in the Plan) of Dynex shall not exceed 10% of the number of common shares of Dynex that are outstanding immediately prior to any issuance of options under the Plan or any issuance of Option Shares, as the case may be, excluding Option Shares issued pursuant to the Plan during the preceding one year period (the "Outstanding Issue"). The aggregate number of Option Shares which may be issued to insiders of Dynex within any one year period shall not exceed 10% of the Outstanding Issue. The number of Option Shares which may be issued to any one Participant and its associates (as defined in the Plan) within any one year period shall not exceed 5% of the Outstanding Issue. The number of Option Shares which may be issued to any one Participant shall not exceed 5% of the Outstanding Issue.

The price at which the Option Shares may be purchased (the "Exercise Price") under the Plan (subject to adjustment as provided therein) is determined by the compensation committee appointed by the board of directors of Dynex (the "Committee"). The Exercise Price is based upon the closing market price of the common shares of Dynex on the applicable stock exchange on the trading day prior to the date of grant of options or an average of the market price of the common shares of Dynex acceptable to the applicable regulatory authorities.

The limitation period or period(s) for exercise and the vesting period(s) of the Option Shares granted is also determined by the Committee, which may not exceed five years from the date of grant. Generally, options granted under the Plan vest evenly over a three-year period commencing one year from the date of grant and expire five years from the date of grant. Options granted under the Plan are not assignable or transferable.

An option holder may purchase all or a portion of the Option Shares granted by payment in full of the purchase price for such Option Shares. Option Shares do not confer on the holders any rights as shareholders of Dynex until full payments for such Option Shares have been made and share certificates have been duly issued.

Since the completion of the Company's acquisition of 75% of the outstanding common shares of Dynex on 31 October 2008 and up to 31 December 2008, no option was granted, exercised, cancelled or lapsed under the Plan. The following table shows the outstanding options held by the Participants under the Plan:

| Category of participants | Grant date | Expiry date | Exercise Price per Option Share | Number of options outstanding as at 31 October 2008 and 31 December 2008 |
|---|---|---|---|---|
| Directors of Dynex | 10 August 2005 | 9 August 2010 | Cdn$0.08 | 64,757 |
| | 10 December 2007 | 9 December 2012 | Cdn$0.30 | 100,000 |
| | 14 February 2008 | 13 February 2013 | Cdn$0.30 | 50,000 |
| All other employees of Dynex | 10 August 2005 | 9 August 2010 | Cdn$0.08 | 53,745 |
| Total | | | | 268,502 |

*Notes:*

1. All outstanding options are fully vested.

2. The outstanding options have a weighted average remaining life of 2 years and 11 months and a weighted average exercise price of Cdn$0.20.

3. The closing price of the shares of Dynex immediately before 10 August 2005 on which date options were granted to its directors and other employees was Cdn$0.08.

4. The closing price of the shares of Dynex immediately before 10 December 2007 on which date options were granted to its directors was Cdn$0.30.

5. The closing price of the shares of Dynex immediately before 14 February 2008 on which date options were granted to its directors was Cdn$0.30.

## Directors' Share Plan of Dynex

Dynex also adopted a directors' share plan in 2002 under which directors who are not employees or officers of Dynex or its subsidiaries are entitled to receive some or all of their remuneration in the form of common shares of Dynex. When taking their director's fees in this way, the issue price of the shares is taken as the average trading price of the first 20 days of the year to which the fees relate. A total of 1,830,330 shares of Dynex have been issued under this plan since adoption.

## Pre-emptive rights

There are no provisions for pre-emptive rights under the Companies Law of the PRC nor in the Company's articles of association which oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

## Purchase, redemption or sale of listed securities of the Company

During the year, there was no purchase, redemption or sale of any listed securities of the Company by the Company or any of its subsidiaries.

## Reserves

Details of the changes in the reserves of the Company and the Group during the year are set out in note 36 to the financial statements and the consolidated statement of changes in equity respectively.

## Distributable reserves

As at 31 December 2008, calculated in accordance with relevant regulations, the Company's distributable reserves amounted to approximately RMB168,060,000, of which approximately RMB371,736,000 has been proposed to be paid as final dividend for the year.

## Major customers and suppliers

The percentage of sales attributable to the Group's five largest customers during the year was approximately 57.80% of the Group's total sales.

CSR Sifang Co., Ltd. is the largest customer of the Group, and the percentage of the Group's sales to CSR Sifang Co., Ltd. during the year was approximately 30.03% of the Group's total sales. CSR Sifang Co., Ltd. is owned as to 93.55% by CSR.

CSR Zhuzhou is one of the Group's five largest customers, and is owned as to 16.31% by the Parent Company and is beneficially owned as to 98.37% by CSR.

Kunming China Railway is also one of the Group's five largest customers. Mr. Ma Yunkun, a non-executive Director, is the chairman of the board and general manager of Kunming China Railway.

Save as disclosed above, none of the Directors, their associates or those shareholders so far as is known to the Directors having more than 5% interest in the share capital of the Company, has any interest in any one of the Group's five largest customers during the year.

During the year, purchases from the Group's five largest suppliers in aggregate represent approximately 42.44% of the total purchases of the Group during the year.

Mitsubishi Corporation Machinery Inc. ("Mitsubishi Corporation") is the Group's largest supplier. The Group's purchases from Mitsubishi Corporation represent approximately 13.94% of the total purchases during the year.

Shiling is one of the Group's five largest suppliers, the Company owns 50% equity interest in Shiling. Mr. Ding Rongjun, the Chairman and executive Director of the Company, is also the Chairman of Shiling.

Zhuzhou Times Heat Dissipation Technology Co., Ltd (株洲時代散熱技術有限公司) is one of our five largest suppliers and is wholly owned by ZELRI.

Kunming China Railway is one of the Group's five largest suppliers. Mr. Ma Yunkun, a Non-Executive Director of the Company, is the chairman of the board and general manager of Kunming China Railway.

Save as disclosed above, none of the Directors, their associates or shareholders who, as known to the Directors, are interested in 5% or more of the share capital of the Company, has any interests in any one of the five largest suppliers of the Group during the year.

## Directors and Supervisors

The Directors and supervisors of the Company during the year and up to the date of this report were:

### Executive Directors

Ding Rongjun - Chairman of the Board
Lu Penghu - President

### Non-executive Directors

Liao Bin
Song Yali - Vice Chairman of the Board
Ma Yunkun

### Independent non-executive Directors

Gao Yucai
Chan Kam Wing, Clement
Pao Ping Wing
Tan Xiao'ao
Liu Chunru (appointed on 27 June 2008)
Zhou Heliang (retired on 27 June 2008)

### Supervisors

Zhang Liqiang - Chairman of the Supervisory Committee
Liu Chunru - independent supervisor (resigned on 20 April 2008)
Shuai Tianlong - independent supervisor (appointed on 27 June 2008)
Wang Kun - independent supervisor (appointed on 27 June 2008)
Pang Yiming
Liu Ke'an

## Biographies of Directors and supervisors of the Company

Details of the biographies of the Directors and supervisors of the Company are set out on page 13 to page 16 of this annual report.

## Service contracts with Directors and supervisors

The Company has entered into service contracts with all Directors and supervisors for an initial term of three years which shall continue for a term of three years or for a shorter period as may be decided upon at the re-elections of the Directors and supervisors respective at the general meeting or the employee representative committee meeting of the Company as the case may be. Notice for termination of service contracts given by any party shall be for a minimum of three months. All Directors and supervisors retired at the conclusion of the 2007 annual general meeting and all Directors and supervisors except Mr. Pang Yiming and Mr. Liu Ke'an were re-elected thereafter at the general meeting. Mr. Pang Yiming and Mr. Liu Ke'an, being the employee representative supervisors were re-elected at the employee representative committee meeting of the Company.

None of the Directors nor supervisors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## Directors' and supervisors' interests in contracts

During the year, none of the Directors nor supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its Parent Company or any of its subsidiaries was a party.

## Interests and short positions of Directors, supervisors and the chief executive in the shares and securities of the Company

Apart from the stock option plan and the directors' share plan of Dynex set out above, as at 31 December 2008, none of the Directors, supervisors, the chief executive of the Company or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or any interests or short positions in the shares required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or any personal, family, corporate or other interests or short positions required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors.

## Directors' and supervisors' rights to acquire shares or debentures

At no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate granted to any Directors, supervisors or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## Employees and remuneration Policy

The Group's remuneration policy for its employees takes into account the individuals' merit, qualifications and competence. The Group offers salary increments and bonuses to employees with outstanding performance. The bonus scheme is discretionary and is determined by the Directors with reference to the performance of the staff and the Group's operation results. The Group places great emphasis on the provision of on-the-job-training and development of its employees. Each staff member is required to participate in departmental training prior to the commencement of his or her employment. In subsequent years, the management and other employees are required to undertake further relevant training as specified by the Group. As at 31 December 2008, the Group has 3,330 full time employees, and the total amount of remuneration (including salaries and allowances) for employees in 2008 was approximately RMB 248.8 million.

The remunerations of Directors and Supervisors are proposed by the Board and subject to approval by shareholders of the Company in general meetings, taking into consideration their respective experience, level of responsibilities within the Group, performance of the Company as well as remuneration benchmark in the industry and the market situation. Details of the remunerations of Directors and Supervisors are set out in note 8 to the consolidated financial statements.

Dynex, a 75% owned subsidiary of the Company, adopted a stock option plan as an incentive to eligible participants and a directors' share plan to help attract and retain qualified individuals to serve on its board for eligible directors, details of the plans are set out in the paragraphs headed "Stock Options of Dynex" and "Directors' Share Plan of Dynex" above.

## Structure of share capital

The Company's share capital structure as at 31 December 2008 was as follows:

| | | As at 31 December 2008 | |
|---|---|---|---|
| Shareholder | Type | Number of shares | % of issued share capital |
| ZELRI | Domestic share | 589,585,699 | 54.38% |
| Qishuyan Works | Domestic share | 9,380,769 | 0.87% |
| CSR Investment & Leasing | Domestic share | 9,380,769 | 0.87% |
| CSR Zhuzhou | Domestic share | 10,000,000 | 0.92% |
| Kunming China Railway | Domestic share | 9,800,000 | 0.90% |
| Shares in public circulation | H share | 456,108,400 | 42.06% |
| Total | | 1,084,255,637 | 100% |

## Substantial shareholders

Interests and short positions in the shares and relevant underlying shares of the Company or any of its associated corporations pursuant to the disclosure requirements in Divisions 2 and 3 of Part XV of the SFO as at 31 December 2008 were as follows:

| Name of substantial shareholder | Number of shares held | Capacity | % of Domestic Share share capital | % of H Share share capital | % of issued share capital |
|---|---|---|---|---|---|
| ZELRI | 589,585,699 (Long position) | Beneficial owner | 93.86% | — | 54.38% |
| CSR (note 1) | 608,966,468 (Long position) | Interest in controlled entity | 96.95% | — | 56.16% |
| CSRG (note 2) | 618,347,237 (Long position) | Interest in controlled entity | 98.44% | — | 57.03% |
| The Hamon Investment Group Pte Limited | 36,237,000 (Long position) | Investment manager | — | 7.94% | 3.34% |
| Mirae Asset Global Investments (Hong Kong) Limited | 25,584,000 (Long position) | Investment manager | — | 5.61% | 2.36% |
| JPMorgan Chase & Co. | 2,537,338 (Long position) | Beneficial owner | — | 0.56% | 0.23% |
| | 22,248,808 Lending pool shares) | Custodian/ Approved lending agent | — | 4.88% | 2.05% |

Note:

(1) CSR is interested in 100% in the registered capital of ZELRI and CSR Investment & Leasing, and is directly and indirectly interested in 98.37% in the registered capital of CSR Zhuzhou. Accordingly, CSR is deemed under the SFO to be interested in the shares held by each of ZELRI, CSR Investment & Leasing and CSR Zhuzhou.

(2) CSRG is directly and indirectly interested in 57.57% of the issued shares of CSR, and is directly interested in 100% in the registered capital of Qishuyan Works. Accordingly, CSRG is deemed under the SFO to be interested in the shares held by each of CSR and Qishuyan Works.

## Connected Transactions and Continuing Connected Transactions

During the reporting period, the Company and the Group had entired into the following connected transactions and continuing connected transactions:

## Connected Transactions

On 16 September 2008, the Company entered into a share purchase agreement with the Parent Company and CSR Zhuzhou , pursuant to which the Parent Company and CSR Zhuzhou agreed to transfer to the Company their 17% and 12% equity interest in Zhuzhou Siemens respectively. The Consideration for transfer were RMB10,869,000 and RMB7,672,000 respectively, which were determined with reference to the assessed value of the net assets of Zhuzhou Siemens as assessed by the Valuer as at 30 September 2007. Please refer to the connected transaction announcement dated 16 September 2008 for details.

## Continuing Connected Transactions

Transactions conducted between the Group and the following parties constitute continuing connected transactions of the Company under the Listing Rules. Details of the Group's continuing connected transactions are as follows:

### 1 Continuing connected transactions exempted from independent shareholders' approval requirement but subject to reporting and announcement requirements

(a) The following transactions constituted continuing connected transactions of the Company under Rule 14A.34 of the Listing Rules and thus are exempted from the requirement to obtain independent shareholders' approval, but are subject to the reporting and announcement requirements. The Stock Exchange has granted the Company a waiver from strict compliance with the announcement requirement under Rule 14A.47 of the Listing Rules.

The Company signed a lease on 29 March 2006 as the lessor with the Parent Company as the lessee under which the Company agreed to let to the Parent Company four stories of research administrative building with a total area of 6,960 $m^2$ for a term of three years from 1 January 2006 to 31 December 2008 at an annual lease rental of RMB1,867,184. The Company received from the Parent Company RMB1,867,184 for the year ended 31 December 2008.

(b) Apart from the lease mentioned in paragraph (a) above, the Group and the Parent Group entered into the following leases during the reporting period. Pursuant to Rule 14A.34 of the Listing Rules and upon aggregation pursuant to Rule 14A.25 of the Listing Rules, the following continuing transactions are exempted from approval of independent shareholders but subject to reporting and announcement requirements and the Company has not made timely reporting and announcements. The Company convened a Board meeting on 17 April 2009 to confirm and approve the following continuing connected transactions and an announcement will be published in due course.

(1) On 28 April 2008, the Company as lessor and the Parent Group entered into a lease agreement pursuant to which the Company agreed to lease the certain factory premises and ancillary facilities in Zhuzhou with a total area of 9,828 square meters for use by the Parent Company as wind power generation plant for a term of 20 months starting from 1 May 2008 and ending on 31 December 2009. The total rental was RMB2,850,000, of which the first payment of RMB1,995,000 was made in November 2008, and the balance of RMB855,000 is to be paid in August 2009. As at 31 December 2008, the Company received from the Parent Company rental payment in the amount of RMB1,995,000.

(2) On 1 January 2008, the Company as lessor and Times Electric Vehicle entered into a lease agreement pursuant to which the Company agreed to lease to Times Electric Vehicle certain premises and ancillary facilities for office and production purposes in Zhuzhou with a total area of 3,896.08 square meters for a term of seven months starting from 1 January 2008 and ending on 31 July 2008. The total rental was RMB220,000. As at 31 December 2008, the Company received from Times Electric Vehicle rental payment in the amount of RMB220,000.

(3) On 1 January 2007, Times Electronics as lessor and NERCC entered into the first plant lease agreement pursuant to which Times Electronics agreed to lease to NERCC certain factory premises and auxicillary facilities in Zhuzhou with a total area of 3,116.46 square meters for a term of six months starting from 1 January 2007 and ending on 30 June 2007 at a total rental of RMB175,000. On 1 July 2007, Times Electronics and NERCC entered into the second plant lease agreement under the same terms for a term of six months starting from 1 July 2007 and ending on 31 December 2007 at a total rental of RMB175,000. On 20 August 2008, Times Electronics and NERCC entered into the third plant lease agreement under the same terms for a term starting from 1 January 2008 and ending on 31 December 2008 at a total rental of RMB350,000. As at 31 December 2008, Times Electronics received from NERCC rental payment in the amount of RMB700,000.

(4) On 26 October 2007, Times Information as lessor and Beijing Tianyu entered into a lease agreement pursuant to which Times Information agreed to lease to Beijing Tianyu certain premises for office and production purposes and ancilliary facilities in Beijing with a total area of 560.00 square meters for a term starting from 1 June 2007 and ending on 31 May 2008 at a monthly rental of RMB35,280. On 4 July 2008, the parties entered into the second plant lease agreement on the same terms for a term starting from 1 June 2008 and ending on 31 May 2010 at a monthly rental of RMB35,280. On 3 October 2008, Times Information and Beijing Tianyu entered into a termination agreement to terminate of the second lease agreement. As at 31 December 2008, Times Information received from Beijing Tianyu rental payment in the amount of RMB458,640.

## 2 Non-exempt continuing connected transactions

The following transactions constituted non-exempt continuing connected transactions of the Company and thus are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.45 to 14A.48 of the Listing Rules. The Stock Exchange has granted the Company a waiver from strict compliance with the announcement and independent shareholders' approval requirements in respect of these transactions.

### (a) Mutual supply of products with the Parent Group

On 4 December 2006, the Company signed a mutual supply agreement with the Parent Company under which the Company and its subsidiaries agreed to supply certain electrical components to the Parent Group, while the Parent Company and its subsidiaries agreed to supply mechanical and electro-mechanical parts and components to the Group. The agreement was for a term of three years from 20 December 2006 (the Company's listing date) to 31 December 2008.

For the year ended 31 December 2008, the amount payable by the Group to the Parent Group for the supply of product for the year amounted to RMB109.2 million, which exceeded the cap as specified in the waiver from the Stock Exchange by RMB21.5 million. The amount payable by the Parent Group to the Group for the supply of product for the year amounted to RMB52.1 million, which was within the cap as specified in the waiver from the Stock Exchange. The exceeding of the relevant cap was due to the fact that the State Council increased the investment in infrastructures and identified the railway industry as one of the key industries for expanding domestic demand and driving economic growth in late October 2008. Under this policy, the Ministry of Railway increased the purchase of products like transportation equipment, which resulted in an increase in the Group sales of electrical systems such as EMUs to the CSRG Group. Also, the Group had to purchase additional parts and components from the Parent Group for the production of electrical systems, which resulted in an increase in the purchases from the Parent Group. Having considered the information available, the Company published an announcement on 14 April 2009 to seek the approvals from the independent shareholders to approve and ratify the continuing connected transactions between the Group and the Parent Group in 2008 and the exceeding of the relevant cap.

**(b) Mutual supply of products with the CSRG Group**

On 4 December 2006, the Company signed a mutual supply agreement with CSRG under which the Company and its subsidiaries agreed to sell train-borne electrical systems and electrical components of different segments to the CSRG Group while CSRG and its subsidiaries agreed to supply certain parts and components for the production of train-borne electrical systems to the Group. The agreement is valid for three years from 20 December 2006 (the Company's listing date) to 31 December 2008.

On 28 April 2008, the Company signed a renewed mutual supply agreement with CSRG, confirming the annual caps for continuing connected transactions between the Group and the CSRG Group (including the Parent Group) during each of the financial years ending 2009 to 2013. This renewed agreement has been approved by the independent shareholders of the Company in the extraordinary general meeting held on 27 June 2008.

For the year ended 31 December 2008, the amount payable by the Group to the CSRG Group for the products amounted to RMB27.0 million, which was within the cap as specified in the waiver from the Stock Exchange. The amount payable by the CSRG Group to the Group for the products amounted to RMB837.4 million, which exceeded the cap as specified in the waiver from the Stock Exchange by RMB31.3 million. The exceeding of the relevant cap was due to the fact that the State Council increased the investment in infrastructures and identified the railway industry as one of the key industries for expanding domestic demand and driving economic growth in late October 2008. Under this policy, the Ministry of Railway increased the purchase of products like transportation equipment, which resulted in an increase in the Group's sales of electrical systems such as EMUs to the CSRG Group. Having considered the information available, the Company published an announcement on 14 April 2009 to seek independent shareholders' approval to approve and ratify the continuing connected transactions between the Group and the CSRG Group (including the Parent Group) in 2008 and the exceeding of the relevant cap, and to revise the caps for the continuing connected transactions between the Group and the CSRG Group (including the Parent Group) during each of the financial years ending 2009 to 2013.

**(c) Mutual supply of products with the Kunming China Railway Group**

On 4 December 2006, the Company and Kunming China Railway entered into a mutual supply agreement under which the Company and its subsidiaries agreed to supply certain electrical control systems for large railway maintenance vehicles to Kunming China Railway Group and Kunming China Railway Group also agreed to supply certain parts and components for large railway maintenance vehicles to the Group for a period of three years from 20 December 2006 (the Company's listing date) to 31 December 2008. Kunming China Railway, as licensee, entered into a technology license agreement with a European company, as licensor, in relation to the license of the technology for large railway maintenance vehicles. Kunming China Railway has ultimately formed a consortium (implemented by the Group) with the Parent Company and three other companies for the manufacture of large railway maintenance vehicles. With respect to each type of large railway maintenance vehicle, the parties agreed on the percentage they will each receive from the sales income ("revenue percentage"). Each party of the consortium is obligated to procure parts and components from the licensor (through Kunming China Railway) in an amount equal to the sales income from relevant types of product multiplied by the procurement percentage and the revenue percentage.

On 28 April 2008, the Company entered into a renewed mutual supply agreement with Kunming China Railway, confirming the annual caps in respect of the continuing connected transactions between the Group and Kunming China Railway Group during each of the financial years ending 2009 to 2013. Such renewed agreement was approved by the independent shareholders of the Company in the extraordinary general meeting held on 27 June 2008.

On 7 August 2008, the Company and Kunming China Railway entered into a supplemental mutual supply agreement to revise the annual caps of the continuing connected transactions during each of the financial years ending 2008 to 2010. Pursuant to this supplemental agreement, save as the revised annual caps, all other terms of the mutual supply agreement and the renewed mutual supply agreement remain unchanged. This supplemental agreement was approved by the independent shareholders of the Company in the extraordinary general meeting held on 13 October 2008.

For the year ended 31 December 2008, the amount payable by the Group to the Kunming China Railway Group for the products amounted to approximately RMB119.1 million. The amount payable to the Group by the Kunming China Railway Group for the products amounted to approximately RMB267.3 million. Both are within the caps approved by the independent shareholders of the Company.

The State Council increased the investment in infrastructures and identified the railway industry as one of the key industries for expanding domestic demand and driving economic growth in late October 2008. Under this policy, the newly constructed and reconstructed railway length was increased and the demand for products such as railway maintenance vehicles and railway engineering machinery was also increased. Thus, the amount of orders placed by Kunming China Railway Group with the Group will increase and the Group's purchases made through the Kunming China Railway Group will also increase. Having considered the information available, the Company published an announcement on 14 April 2009 to seek independent shareholders' approval to revise the relevant agreements and annual caps for continuing connected transactions between the Group and the Kunming China Railway Group during each of the financial years ending 2009 to 2013.

## Annual Review of Continuing Connected Transactions

Pursuant to Chapter 14A.38 of the Listing Rules, the Board of Directors has engaged the auditors of the Company to perform certain agreed upon procedures in respect of the continuing connected transactions of the Group. The auditors have reported their factual findings on these procedures to the Board. The Directors (including independent non-executive directors) have reviewed and confirmed that the continuing connected transactions of the Group:

(1) are entered in the ordinary and usual course of business of the Group;

(2) are entered on normal commercial terms or on terms no less favourable than those available to or from independent third parties;

(3) are conducted in accordance with the agreements governing such transaction, and the terms are fair and reasonable and in the interest of the Company's shareholders as a whole; and

(4) did not exceed the total annual caps for 2008 as disclosed in the Company's prospectus and approved at the extraordinary general meeting held by the Company on 13 October 2008, except for continuing connected transactions with the Parent Group on purchase activities for the year ended 31 December 2008 and continuing connected transactions with the CSRG Group on sales activities for the year ended 31 December 2008.

Pursuant to Rule 14A.36(1) of the Listing Rules, the Company should re-comply with the reporting, announcement and independent shareholders' approval requirements for the exceeded caps in 2008. An announcement containing, among other things, the reasons for exceeding the relevant caps was published by the Company on 14 April 2009. A circular containing, among other things, details of the continuing connected transactions conducted with the Parent Group and the CSRG Group for the year ended 31 December 2008 will be despatched to the shareholders of the Company in due course and approval will be sought from the independent shareholders of the Company to approve and ratify the exceeded caps in 2008.

## Mechanism for protecting minority interests

To protect minority interests, the Company has established and implemented certain governance measures, which include:

(i) Interested directors have to declare their respective interests, and waive their rights to attend Board meetings and abstain from voting in respect of the connected transactions they are interested in. Accordingly, Messrs. Liao Bin, Ding Rongjun and Song Yali waived their rights to attend the Board meetings and abstained from voting in respect of the connected transactions between the Company and the Parent Group. Mr. Ma Yunkun waived his rights to attend the Board meeting and abstained from voting in respect of connected transaction between the Company and Kunming China Railway.

(ii) An independent professional management team of the Group responsible for negotiating and reviewing the terms of transactions with the suppliers and customers (including the Parent Group and the CSRG Group) has been established. The members of the management team include the staff of the Group with relevant techniques and sales expertise, and the scope of duties of the management team enables it to make independent business judgments. The management team reports to the Board, while the Board is accountable to the Company and the shareholders as a whole.

(iii) The Company's auditors have provided quarterly reports to the independent non-executive Directors on all transactions conducted between the Company and the Parent Group/the CSRG Group/Kunming China Railway.

(iv) When making purchases, the Group has endeavoured to obtain tenders or quotations from a number of independent suppliers, and select successful bidders (where applicable) based on objective standards such as the price and quality of products, delivery schedule and services.

(v) Subject to (i) above, all independent non-executive Directors have attended the Board meetings for deciding whether the Group should conduct special transactions with the Parent Group or the CSRG Group.

(vi) The terms for the supply and purchase arrangements entered into between the Group and the Parent Group or the CSRG Group are subject to quarterly reviews by the independent non-executive Directors, and opinions regarding such transactions are disclosed by the Company to shareholders by way of announcements. Independent non-executive Directors may request an independent party having at least 10 years experience in the locomotive manufacturing industry to participate in assessing the terms of the sales and purchases agreements, and to provide their findings to the independent non-executive Directors.

## Non-competition and indemnity agreements

The Company entered into non-competition and indemnity agreements with the Parent Group and the CSRG Group on 30 November 2006. The Parent Group and the CSRG Group respectively undertook not to carry on businesses that are in competition with the Company's businesses.

The independent non-executive Directors have reviewed the compliance issue of the non-competition and indemnity agreements with the Parent Group and the CSRG Group for 2008, and reviewed relevant information provided by the Parent Group and the CSRG Group. The independent non-executive Directors were of the opinion that the Parent Group and the CSRG Group complied with the relevant terms of the non-competition and indemnity agreements in 2008. The Parent Group and the CSRG Group carried on their respective businesses independent of the Company's businesses, having different technology applications and different customers, which did not cause any competition with the Company. The Board of Directors operated and managed the Company's businesses independently in the interests of the Company and its shareholders as a whole.

## Sufficiency of public float

According to publicly available information and as far as the Directors were aware, as at the date of this report, there was a sufficient public float of the Company's issued shares as required under the Listing Rules.

## Post Balance Sheet Events

Details of the Group's post balance sheet events are set out in note 45 to the financial statements.

## Taxation

Pursuant to the "Enterprise Income Tax Law of the People's Republic of China" and the "Implementation Regulations of the Enterprise Income Tax Law of the People's Republic of China", with effect from 1 January 2008, any PRC domestic enterprise shall withhold the enterprise income tax of 10% upon the distribution of dividends payable to the shareholders being non-resident enterprises (legal persons) for accounting periods starting from 1 January 2008.

Save as disclosed above, for the year ended 31 December 2008, no foreign shareholder who is non-PRC resident is liable to individual or enterprise income tax, capital gains tax, stamp duty or estate duty of the PRC in relation to their holding of H shares of the Company. Shareholders are urged to consult their tax advisers regarding the applicable PRC and Hong Kong tax laws and other tax consequences of owning and disposing of H shares of the Company.

## Auditors

The financial statements for the year have been audited by Ernst & Young, and a resolution will be put forward at the forthcoming annual general meeting to re-appoint Ernst & Young as the Company's auditors.

On behalf of the Board

**Ding Rongjun**
*Chairman of the Board*

Zhuzhou, Hunan, PRC
17 April 2009

# Supervisory Committee's Report

During the reporting period, pursuant to the PRC Company Law, the Articles, the Listing Rules and the Rules of Meeting of the Supervisory Committee, members of the Supervisory Committee performed their duties prudently and effectively with respect to the supervision of the Company's operations and business activities in accordance with applicable rules and regulations so as to safeguard shareholders' and the Company's interests.

## I. Meetings of the Supervisory Committee held during the reporting period

1. During the year, the Company held four Supervisory Committee meetings. The notices, convening, holding and resolutions of the meetings were in compliance with the requirements of the relevant laws and regulations and the Articles. Areas of review mainly included the work report of the 2007 Supervisory Committee of the Company, the 2007 financial report, the 2007 annual report, the 2008 interim report, connected transactions and changes of members of the Supervisory Committee.

2. During the year, members of the Supervisory Committee attended all general meetings and Board meetings of the Company in person or by ways of telecommunication.

## II. Independent opinion of the Supervisory Committee

### 1. The Company carried on its operations lawfully

In 2008, in accordance with applicable laws and regulations, the Supervisory Committee reviewed the Company's shareholders' meeting, procedures adopted in the convening of Board meetings, resolutions passed, policy-making procedures, results of voting, implementation of resolutions of shareholders' meeting by Directors, the performance of duties of senior management and the management of the Company. The Supervisory Committee believes that the Directors and senior management of the Company had seriously performed their responsibilities in a lawful manner. During the reporting period, there were no breaches of law or regulations to the detriment of the Company or the interests of shareholders.

### 2. Financial reports give a true and accurate view

The Supervisory Committee seriously reviewed the Group's financial system and financial situations in detail. The Supervisory Committee considers the Group's 2008 financial reports to be true and accurate and present the financial situations and operating results objectively, and that the audit opinion and other relevant comments made by Ernst & Young are also true and fair.

### 3. Use of proceeds

To facilitate the promotion of high power locomotive project and to form scaled sales, the Company reallocated part of the net proceeds from the global offering of shares of the Company initially designated to be used as working capital to finance the acquisition of the 12% and 1% equity interests in Zhuzhou Siemens held by CSR Zhuzhou and Siemens Ltd., China respectively. Please refer to the announcement of connected transactions published by the Company on 16 September 2008 for details. Save as disclosed above, as at 31 December 2008, there were no deviations in the use of proceeds from that disclosed in the Company's prospectus.

## 4. Connected transactions

The Supervisory Committee considers that transactions between the Group and the Parent Group, the CSRG Group, Kunming China Railway, during the year were entered into in the ordinary and usual course of business. The various transactions were on the principles of openness, fairness and reasonableness and were entered into in the interests of the Group and the shareholders as a whole. After its review, the Supervisory Committee found that the Group's transactions in 2008 were in compliance with the relevant laws and regulations of the State and had not discovered any harm done to the Company's and shareholders' interest by means of connected transactions, and the total value of connected transactions was below the cap approved by the Stock Exchange, except for continuing connected transactions with the Parent Group on purchase activities for the year ended 31 December 2008 and continuing connected transactions with the CSRG Group on sales activities for the year ended 31 December 2008. The excess of the caps under the agreement was due to the fact that the State Council increased the investment in infrastructures and defined the railway industry as one of the key industries for expanding domestic demand and driving economic growth in late October 2008. Under this policy, the Ministry of Railways increased the purchase of EMUs, which resulted in an increase in the Group's sales of electrical systems such as EMUs to CSRG Group. Also, the Group had to purchase additional parts and components from the Parent Group for the production of electrical systems, which resulted in an increase in the Group's purchases from the Parent Group.

## 5. The implementation of non-competition agreements

The Supervisory Committee is of the opinion that during the year, the Parent Group and the CSRG Group had complied with the terms of non-competition and indemnity agreements, performed their undertakings, and had not entered into businesses in competition with the Group's businesses.

## 6. The implementation of resolutions of the annual general meeting

During the year, members of the Supervisory Committee attended eight Board meetings and three shareholders' meetings. There were no objections to the various reports and resolutions submitted by the Board for consideration at the shareholders' meetings. The Board of Directors had seriously carried out resolutions of the shareholders' meeting.

**Zhang Liqiang**
*Chairman of the Supervisory Committee*
Zhuzhou, Hunan, PRC

17 April 2009

# Independent Auditors' Report

ERNST & YOUNG
安 永

18th Floor
Two International Finance Centre
8 Finance Street, Central
Hong Kong

**To the shareholders of Zhuzhou CSR Times Electric Co., Ltd.**
(A joint stock company established in the People's Republic of China with limited liability)

We have audited the financial statements of Zhuzhou CSR Times Electric Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") set out on pages 47 to 125, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

## Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

**Ernst & Young**
Certified Public Accountants
Hong Kong
17 April 2009

# Consolidated Income Statement

Year ended 31 December 2008

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **REVENUE** | 5 | **2,119,323** | 1,541,804 |
| Cost of sales | | **(1,332,142)** | (865,480) |
| Gross profit | | **787,181** | 676,324 |
| Other income and gains | 5 | **119,432** | 85,229 |
| Selling and distribution costs | | **(127,541)** | (120,042) |
| Administrative expenses | | **(284,411)** | (277,225) |
| Other operating expenses, net | | **(4,895)** | (31,707) |
| **PROFIT FROM OPERATIONS** | | **489,766** | 332,579 |
| Finance costs | 7 | **(959)** | (3,169) |
| Share of profits and losses of: | | | |
| A jointly-controlled entity | 19 | **8,309** | 15,501 |
| An associate | 20 | **(274)** | — |
| **PROFIT BEFORE TAX** | 6 | **496,842** | 344,911 |
| Tax | 10 | **(73,505)** | 2,566 |
| **PROFIT FOR THE YEAR** | | **423,337** | 347,477 |
| Attributable to: | | | |
| Equity holders of the parent | 11 | **422,300** | 347,389 |
| Minority interests | | **1,037** | 88 |
| | | **423,337** | 347,477 |
| **DIVIDENDS** | 12 | **168,060** | 157,217 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (basic)** | 13 | **RMB0.39** | RMB0.32 |

# Consolidated Balance Sheet

31 December 2008

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **933,250** | 590,972 |
| Prepaid land lease payments | 15 | **73,937** | 75,501 |
| Goodwill | 16 | **47,743** | 1,940 |
| Other intangible assets | 17 | **87,557** | 15,625 |
| Interest in a jointly-controlled entity | 19 | **81,325** | 79,016 |
| Interest in an associate | 20 | **18,906** | — |
| Available-for-sale investments | 21 | **400** | 400 |
| Deferred tax assets | 34 | **12,630** | 6,956 |
| Total non-current assets | | **1,255,748** | 770,410 |
| **CURRENT ASSETS** | | | |
| Inventories | 22 | **523,293** | 439,521 |
| Trade receivables | 23 | **711,544** | 501,680 |
| Bills receivable | 24 | **327,937** | 258,200 |
| Prepayments, deposits and other receivables | 25 | **450,516** | 164,482 |
| Financial assets at fair value through profit or loss | 26 | **100,000** | — |
| Pledged deposits | 27 | **3,362** | 7 |
| Cash and cash equivalents | 27 | **796,722** | 1,510,603 |
| Total current assets | | **2,913,374** | 2,874,493 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 28 | **370,358** | 221,680 |
| Bills payable | 29 | **46,234** | 48,172 |
| Other payables and accruals | 30 | **193,927** | 149,155 |
| Provision for warranties | 31 | **51,573** | 45,646 |
| Interest-bearing bank and other borrowings | 32 | **20,703** | — |
| Government grants | 33 | **6,916** | 14,211 |
| Tax payable | | **12,130** | 4,589 |
| Total current liabilities | | **701,841** | 483,453 |
| **NET CURRENT ASSETS** | | **2,211,533** | 2,391,040 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,467,281** | 3,161,450 |

# Consolidated Balance Sheet

31 December 2008

| | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **NON-CURRENT LIABILITIES** | | | |
| Interest-bearing bank and other borrowings | 32 | **3,736** | — |
| Government grants | 33 | **27,000** | — |
| Deferred tax liabilities | 34 | **8,876** | — |
| Total non-current liabilities | | **39,612** | — |
| **NET ASSETS** | | **3,427,669** | 3,161,450 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Issued capital | 35 | **1,084,256** | 1,084,256 |
| Reserves | 36(a) | **2,156,805** | 1,915,720 |
| Proposed final dividend | 12 | **168,060** | 157,217 |
| | | **3,409,121** | 3,157,193 |
| **Minority interests** | | **18,548** | 4,257 |
| **TOTAL EQUITY** | | **3,427,669** | 3,161,450 |

**Ding Rongjun**
Director

**Lu Penghu**
Director

# Consolidated Statement of Changes in Equity

Year ended 31 December 2008

| | Notes | Issued capital RMB'000 | Capital reserve RMB'000 | Statutory reserve RMB'000 | Exchange fluctuation reserve RMB'000 | Proposed final dividend RMB'000 | Retained profits RMB'000 | Total RMB'000 | Minority interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to equity holders of the parent | | | | | | | | |
| At 1 January 2007 | | 1,084,256 | 1,495,630 | 38,517 | — | 36,865 | 191,318 | 2,846,586 | 1,424 | 2,848,010 |
| Profit for the year | | — | — | — | — | — | 347,389 | 347,389 | 88 | 347,477 |
| Total income and expense for the year | | — | — | — | — | — | 347,389 | 347,389 | 88 | 347,477 |
| Adjustment of appropriation to reserve upon adoption of new accounting standards | 36 | — | — | (10,039) | — | — | 10,039 | — | — | — |
| Consolidation of a subsidiary due to obtaining additional voting rights | | — | — | — | — | — | — | — | 2,745 | 2,745 |
| Final 2006 dividend declared | | — | — | — | — | (36,865) | 83 | (36,782) | — | (36,782) |
| Transfer from retained profits | | — | — | 23,809 | — | — | (23,809) | — | — | — |
| Proposed final 2007 dividend | 12 | — | — | — | — | 157,217 | (157,217) | — | — | — |
| At 31 December 2007 and 1 January 2008 | | 1,084,256 | 1,495,630* | 52,287* | —* | 157,217 | 367,803* | 3,157,193 | 4,257 | 3,161,450 |
| Exchange realignment | | — | — | — | (13,904) | — | — | (13,904) | (2,385) | (16,289) |
| Total income and expense for the year recognised directly in equity | | — | — | — | (13,904) | — | — | (13,904) | (2,385) | (16,289) |
| Profit for the year | | — | — | — | — | — | 422,300 | 422,300 | 1,037 | 423,337 |
| Total income and expense for the year | | — | — | — | — | — | 422,300 | 422,300 | 1,037 | 423,337 |
| Acquisition of subsidiaries | 37 | — | — | — | — | — | — | — | 18,304 | 18,304 |
| Acquisition of minority interests | | — | — | — | — | — | — | — | (2,665) | (2,665) |
| Final 2007 dividend declared | | — | — | — | — | (157,217) | 217 | (157,000) | — | (157,000) |
| Transfer from retained profits | | — | — | 35,405 | — | — | (35,405) | — | — | — |
| Proposed final 2008 dividend | 12 | — | — | — | — | 168,060 | (168,060) | — | — | — |
| Others | | — | 532 | — | — | — | — | 532 | — | 532 |
| At 31 December 2008 | | 1,084,256 | 1,496,162* | 87,692* | (13,904)* | 168,060 | 586,855* | 3,409,121 | 18,548 | 3,427,669 |

* These reserve accounts comprise the consolidated reserves of RMB2,156,805,000 (2007: RMB1,915,720,000) in the consolidated balance sheet.

# Consolidated Cash Flow Statement

Year ended 31 December 2008

| | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| **Profit before tax** | | **496,842** | 344,911 |
| Adjustments for: | | | |
| Finance costs | 7 | **959** | 3,169 |
| Interest income | 5 | **(18,275)** | (29,204) |
| Investment income from financial instruments | 5 | **(31,205)** | — |
| Share of profits and losses of: | | | |
| An associate | 20 | **274** | — |
| A jointly-controlled entity | 19 | **(8,309)** | (15,501) |
| Loss on disposal of items of property, plant and equipment, net | 6 | **1,358** | 419 |
| Depreciation of items of property, plant and equipment | | **54,555** | 46,039 |
| Amortisation of prepaid land lease payments | 6 | **1,564** | 838 |
| Amortisation of other intangible assets | | **2,312** | 3,230 |
| Provision for impairment of trade and other receivables, net | 6 | **3,560** | 10,584 |
| Provision for obsolete inventories | 6 | **10,398** | 4,848 |
| | | **514,033** | 369,333 |
| Increase in trade receivables, bills receivable, prepayments, deposits and other receivables | | **(316,494)** | (94,219) |
| Increase in inventories | | **(54,644)** | (77,953) |
| Increase/(decrease) in trade payables, bills payable, other payables and accruals | | **162,599** | (137,624) |
| Change in government grants | | **19,705** | 14,211 |
| Increase in provision for warranties | | **5,927** | 8,748 |
| Cash generated from operations | | **331,126** | 82,496 |
| Income tax paid | | **(75,768)** | (707) |
| Net cash inflow from operating activities | | **255,358** | 81,789 |

# Consolidated Cash Flow Statement

Year ended 31 December 2008

| | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Interest received | | **18,275** | 29,204 |
| Investment income from financial instruments | | **31,205** | — |
| Dividend received from a jointly-controlled entity | | **6,000** | — |
| Purchases of items of property, plant and equipment | | **(365,240)** | (280,725) |
| Additions to prepaid land lease payments | | **—** | (43,547) |
| Additions to other intangible assets | | **(55,334)** | (3,911) |
| Proceeds from disposal of items of property, plant and equipment | | **624** | 151 |
| Acquisition of subsidiaries | 37 | **(99,604)** | 2,574 |
| Acquisition of minority interests | | **(2,133)** | — |
| Acquisition of an associate | | **(11,508)** | — |
| Acquisition of a jointly-controlled entity | | **—** | (63,515) |
| Increase of loan receivables | | **(235,000)** | (65,000) |
| Increase in financial assets at fair value through profit or loss | 26 | **(100,000)** | — |
| Decrease/(increase) in non-pledged time deposits with original maturity of three months or more when acquired | 27 | **740,000** | (800,000) |
| (Increase)/decrease in pledged time deposits | 27 | **(3,355)** | 2,962 |
| Net cash outflow from investing activities | | **(76,070)** | (1,221,807) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank and other borrowings | | **40,351** | — |
| Repayment of bank and other borrowings | | **(35,561)** | (367,537) |
| Interest paid | | **(959)** | (3,169) |
| Dividends paid | | **(157,000)** | (39,983) |
| Net cash outflow from financing activities | | **(153,169)** | (410,689) |
| **NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS** | | **26,119** | (1,550,707) |
| Cash and cash equivalents at beginning of year | | **710,603** | 2,261,310 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | 27 | **736,722** | 710,603 |

# Balance Sheet

31 December 2008

| | Notes | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **722,340** | 446,190 |
| Prepaid land lease payments | 15 | **50,973** | 52,017 |
| Other intangible assets | 17 | **55,924** | 15,103 |
| Interests in subsidiaries | 18 | **295,520** | 167,568 |
| Investment in a jointly-controlled entity | 19 | **63,515** | 63,515 |
| Investment in an associate | 20 | **19,180** | — |
| Deferred tax assets | 34 | **10,945** | 5,593 |
| Total non-current assets | | **1,218,397** | 749,986 |
| **CURRENT ASSETS** | | | |
| Inventories | 22 | **412,601** | 377,665 |
| Trade receivables | 23 | **561,832** | 421,588 |
| Bills receivable | 24 | **299,587** | 209,270 |
| Prepayments, deposits and other receivables | 25 | **522,729** | 212,898 |
| Financial assets at fair value through profit or loss | 26 | **100,000** | — |
| Pledged deposits | 27 | **—** | 7 |
| Cash and cash equivalents | 27 | **659,263** | 1,426,711 |
| Total current assets | | **2,556,012** | 2,648,139 |
| **CURRENT LIABILITIES** | | | |
| Trade payables | 28 | **396,359** | 272,170 |
| Bills payable | 29 | **48,294** | 48,172 |
| Other payables and accruals | 30 | **148,635** | 136,611 |
| Provision for warranties | 31 | **40,266** | 35,461 |
| Government grants | 33 | **6,746** | 13,996 |
| Tax payable | | **18,137** | 2,313 |
| Total current liabilities | | **658,437** | 508,723 |
| **NET CURRENT ASSETS** | | **1,897,575** | 2,139,416 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **3,115,972** | 2,889,402 |
| **NON-CURRENT LIABILITIES** | | | |
| Government grants | 33 | **27,000** | — |
| **NET ASSETS** | | **3,088,972** | 2,889,402 |
| **EQUITY** | | | |
| Issued capital | 35 | **1,084,256** | 1,084,256 |
| Reserves | 36(b) | **1,836,656** | 1,647,929 |
| Proposed final dividend | 12 | **168,060** | 157,217 |
| **TOTAL EQUITY** | | **3,088,972** | 2,889,402 |

| | |
|---|---|
| **Ding Rongjun** | **Lu Penghu** |
| Director | Director |

## 1. CORPORATE INFORMATION

The Company was established 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.

The registered office of the Company is located at Times Road, Shifeng District, Zhuzhou City, Hunan Province, PRC.

The Company and its subsidiaries are principally engaged in the sale and manufacture of train-borne electrical systems and electrical components.

In the opinion of the directors, the holding company of the Group is CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (formerly CSR Zhuzhou Electric Locomotive Research Institute, "ZELRI") and the ultimate holding company of the Group is China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), which are established in the PRC.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("IFRICs") approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance (the "Companies Ordinance"). They have been prepared under the historical cost convention, except for certain financial assets as further explained below.

The Company was established in September 2005 as part of the restructuring of ZELRI (the "Reorganisation") and pursuant to the Reorganisation, ZELRI transferred its assets, liabilities and businesses relating to the manufacture and sale of train-borne electrical systems and electrical components (the "Relevant Businesses") to the Company as a capital contribution, and the Company issued certain shares to ZELRI credited as fully paid as consideration.

As ZELRI controlled the Relevant Businesses before the Reorganisation and continues to have control over the Company and its subsidiaries (collectively 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 Group's financial statements have been prepared on the basis as if the Relevant Businesses had been transferred to the Company by ZELRI from the earliest date presented or since the date when the Relevant Businesses first came under common control. Accordingly, the assets and liabilities comprising the Relevant Businesses transferred to the Company and carried forward to the years ended 31 December 2007 and 2008 have been stated at historical amounts in the Company's and the Group's financial statements.

These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.1 BASIS OF PREPARATION (continued)

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2008. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All income, expenses and unrealised gains and losses resulting from intercompany transactions and intercompany balances within the Group are eliminated on consolidation in full.

Except for reorganisation under common control which has been accounted for as a combination of business under common control in a manner similar to a pooling of interests, the acquisition of subsidiaries has been accounted for using the purchase method of accounting.

The pooling-of-interests method of accounting involves incorporating the financial statement items of the combining entities or business in which the common control combination occurs as if they had been consolidated from the date when the combining entities or businesses first came under the control of the controlling party.

The purchase method of accounting involves allocating the cost of the business combinations to the fair value of the identifiable assets acquired, and liabilities and contingent liabilities assumed at the date of acquisition. The cost of the acquisition is measured at the aggregate of the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition.

Minority interests represent the interests of outside shareholders not held by the Group in the results and net assets of the Company's subsidiaries. An acquisition of minority interests is accounted for using the parent entity extension method whereby the difference between the consideration and the book value of the share of the net assets acquired is recognised as goodwill.

## 2.2 IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has adopted the following new interpretations and amendments to IFRSs for the first time for the current year's financial statements, there have been no significant changes to the accounting policies applied in these financial statements.

| | |
|---|---|
| IAS 39 and IFRS 7 Amendments | Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures – Reclassification of Financial Assets* |
| IFRIC-Int 11 | *IFRS 2 – Group and Treasury Share Transactions* |
| IFRIC-Int 12 | *Service Concession Arrangements* |
| IFRIC-Int 14 | *IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* |

The principal effects of adopting these new interpretations and amendments to IFRSs are as follows:

### (a) Amendments to IAS 39 Financial Instruments: Recognition and Measurement and IFRS 7 Financial Instruments: Disclosures – Reclassification of Financial Assets

The amendments to IAS 39 permit an entity to reclassify a non-derivative financial asset classified as held for trading, other than a financial asset designated by an entity as at fair value through profit or loss upon initial recognition, out of the fair value through profit or loss category if the financial asset is no longer held for the purpose of selling or repurchasing in the near term, if specified criteria are met.

A debt instrument that would have met the definition of loans and receivables (if it had not been required to be classified as held for trading at initial recognition) may be classified out of the fair value through profit or loss category or (if it had not been designated as available for sale) may be classified out of the available-for-sale category to the loans and receivables category if the entity has the intention and ability to hold it for the foreseeable future or until maturity.

In rare circumstances, financial assets that are not eligible for classification as loans and receivables may be transferred from the held-for-trading category to the available-for-sale category or to the held-to-maturity category (in the case of a debt instrument), if the financial asset is no longer held for the purpose of selling or repurchasing in the near term.

The financial asset shall be reclassified at its fair value on the date of reclassification and the fair value of the financial asset on the date of reclassification becomes its new cost or amortised cost, as applicable. The amendments to IFRS 7 require extensive disclosures of any financial asset reclassified in the situations described above. The amendments are effective from 1 July 2008.

As the Group has not reclassified any of its financial instruments, the amendments have had no impact on the financial position or results of operations of the Group.

## 2.2 IMPACT OF NEW AND AMENDED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

### (b) IFRIC-Int 11 IFRS 2 – Group and Treasury Share Transactions

IFRIC-Int 11 requires arrangements whereby an employee is granted rights to the Group's equity instruments to be accounted for as an equity-settled scheme, even if the Group buys the instruments from another party, or the shareholders provide the equity instruments needed. IFRIC-Int 11 also addresses the accounting for share-based payment transactions involving two or more entities within the Group. The adoption of this interpretation has had no material impact on the financial position or results of operations of the Group.

### (c) IFRIC-Int 12 Service Concession Arrangements

IFRIC-Int 12 applies to service concession operators and explains how to account for obligation undertaken and the rights received in service concession arrangements. No member of the Group is an operator and, therefore, this interpretation has had no impact on the financial position or results of operations of the Group.

### (d) IFRIC-Int 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

IFRIC-Int 14 addresses how to assess the limit under IAS 19 Employee Benefits, on the amount of a refund or a reduction in future contributions in relation to a defined benefit scheme that can be recognised as an asset, including situations when a minimum funding requirement exists. As the Group has no defined benefit scheme, the interpretation has had no effect on these financial statements.

## 2.3 IMPACT OF ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised IFRSs, that have been issued but are not yet effective, in these financial statements.

| | |
|---|---|
| IFRS 1 and IAS 27 Amendments | Amendments to IFRS 1 *First-time Adoption of IFRSs* and IAS 27 *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*[1] |
| IFRS 2 Amendments | Amendments to IFRS 2 *Share-based Payment - Vesting Conditions and Cancellations*[1] |
| IFRS 3 (Revised) | *Business Combinations*[2] |
| IFRS 7 Amendments | Amendments to IFRS 7 *Financial Instruments: Disclosures*[1] |
| IFRS 8 | *Operating Segments*[1] |
| IAS 1 (Revised) | *Presentation of Financial Statements*[1] |
| IAS 23 (Revised) | *Borrowing Costs*[1] |
| IAS 27 (Revised) | *Consolidated and Separate Financial Statements*[2] |
| IAS 32 and IAS 1 Amendments | Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*[1] |
| IAS 39 Amendment | Amendment to IAS 39 *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*[2] |
| IAS 39 and IFRIC-Int 9 Amendments | Amendments to IAS 39 *Financial Instruments: Recognition and Measurement* and IFRIC-Int 9 *Reassessment of Embedded Derivatives - Embedded Derivatives*[2] |
| IFRIC-Int 13 | *Customer Loyalty Programmes*[3] |
| IFRIC-Int 15 | *Agreements for the Construction of Real Estate*[1] |
| IFRIC-Int 16 | *Hedges of a Net Investment in a Foreign Operation*[4] |
| IFRIC-Int 17 | *Distribution of Non-cash Assets to Owners*[2] |
| IFRIC-Int 18 | *Transfers of Assets from Customers*[2] |

Apart from the above, the IASB has also issued Improvements to IFRSs* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarify wording. Except for the amendment to IFRS 5 which is effective for the annual periods beginning on or after 1 July 2009, other amendments are effective for annual periods beginning on or after 1 January 2009 although there are separate transitional provisions for each standard.

1 Effective for annual periods beginning on or after 1 January 2009
2 Effective for annual periods beginning on or after 1 July 2009
3 Effective for annual periods beginning on or after 1 July 2008
4 Effective for annual periods beginning on or after 1 October 2008
* Improvements to IFRSs contains amendments to IFRS 5, IFRS 7, IAS 1, IAS 8, IAS 10, IAS 16, IAS 18, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 34, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41.

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, it has concluded that while the adoption of IFRS 8 and IAS 1 (Revised) may result in new or amended disclosures and the adoption of IFRS 3 (Revised), IAS 27 (Revised) may result in changes in accounting policies, these new and revised IFRSs are unlikely to have a significant impact on the Group's results of operations and financial position.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company 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 interests in subsidiaries are stated at cost less any impairment losses.

### Joint ventures

A joint venture is an entity set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture is treated as:

(a) a subsidiary, if the Group has unilateral control, directly or indirectly, over the joint venture;

(b) a jointly-controlled entity, if the Group does not have unilateral control, but has joint control, directly or indirectly, over the joint venture;

(c) an associate, if the Group does not have unilateral or joint control, but holds, directly or indirectly, generally not less than 20% of the joint venture's registered capital and is in a position to exercise significant influence over the joint venture; or

(d) an equity investment accounted for in accordance with IAS 39, if the Group holds, directly or indirectly, less than 20% of the joint venture's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Jointly-controlled entities

A jointly-controlled entity is a joint venture that is subject to joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity.

The Group's interests in jointly-controlled entities are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's interests in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities, which was not previously eliminated or recognised in the consolidated reserves, is included as part of the Group's interests in jointly-controlled entities.

The results of jointly-controlled entities are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in jointly-controlled entities are treated as non-current assets and are stated at cost less any impairment losses.

### Associates

An associate is an entity, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated income statement and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

The results of associates are included in the Company's income statement to the extent of dividends received and receivable. The Company's investments in associates are treated as non-current assets and stated at cost less any impairment losses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill forms part of a cash-generating unit (group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

### Excess over the cost of business combinations

Any excess of the Group's interest in the net fair value of the acquirees' identifiable assets, liabilities and contingent liabilities over the cost of acquisition of subsidiaries, associates and jointly-controlled entities, after reassessment, is recognised immediately in the income statement.

The excess for associates and jointly-controlled entities is included in the Group's share of the associates' and jointly-controlled entities' profits or losses in the period in which the investments are acquired.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of non-financial assets other than goodwill

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, 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, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds 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. An impairment loss is charged to the income statement in the period in which it arises 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 an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the income statement in the period in which it arises.

### 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).

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, which consist of buildings, plant, machinery and equipment, computer equipment and others 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 items of 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 or as a replacement.

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

| | **Useful life** |
|---|---|
| Buildings | 20 to 45 years |
| Plant, machinery and equipment | 10 years |
| Computer equipment and others | 5 years |

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each balance sheet date.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the income statement in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

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 capitalised borrowing costs 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (other than goodwill)

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 with a finite useful life are reviewed at least at each balance sheet date.

### Patents, licences and technical know-how

Expenditure on patents, licences and technical know-how is capitalised as intangible assets and amortised using the straight-line method over their useful lives of five to ten years. Patents, licences and technical know-how are not revalued as there is no active market for these assets.

### Computer software

Acquired computer software is capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised using the straight-line method over the estimated useful life of the software of three to ten years.

### Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to ten years, commencing from the date when the products are put into commercial production.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the income statement so as to provide a constant periodic rate of charge over the lease terms.

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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 income statement 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 income statement on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

### Investments and other financial assets

Financial assets in the scope of IAS 39 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.

The Group assesses whether a contract contains an embedded derivative when the Group first becomes a party to it and assesses whether an embedded derivative is required to be separated from the host contract when the analysis shows that the economic characteristics and risks of the embedded derivatives are not closely related to those of the host contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required under the contract.

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, that is, the date that the Group commits to purchase or sell 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as 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, including separated embedded 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 statement. The net fair value gain or loss recognised in the income statement does not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated upon initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the consolidated income statement 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. Held-to-maturity investments are subsequently measured at amortised cost less any allowance for impairment. 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. Gains and losses are recognised in the income statement when the investments are derecognised or impaired, as well as through the amortisation process.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments and other financial assets (continued)

#### 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 income statement. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the income statement as "Other income" in accordance with the policies set out for "Revenue recognition" below. Losses arising from the impairment of such investments are recognised in the income statement as "Impairment losses on available-for-sale financial assets" and are transferred from the available-for-sale investment revaluation reserve.

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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

#### Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the impairment loss is recognised in the income statement. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

In relation to trade and other receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor and significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor) that the Group will not be able to collect all of the amounts due under the original terms of an invoice. The carrying amount of the receivables is reduced through the use of an allowance account. Impaired debts are derecognised when they are assessed as uncollectible.

#### Assets carried at cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

#### Available-for-sale financial assets

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the income statement, is transferred from equity to the income statement. A provision for impairment is made for available-for-sale equity investments when there has been a significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is "significant" or "prolonged" requires judgement. In addition, the Group evaluates other factors, such as the share price volatility. Impairment losses on equity instruments classified as available for sale are not reversed through the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the rights to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Group's continuing involvement is the amount of the transferred asset that the Group may repurchase, except in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, where the extent of the Group's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

### Financial liabilities at amortised cost (including interest-bearing loans and borrowings)

Financial liabilities including trade and other payables, an amount due to the ultimate holding company and interest-bearing loans and borrowings are initially stated at fair value less directly attributable transaction costs and are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. The related interest expense is recognised within "finance costs" in the income statement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

### Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments and hedging

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value on derivatives that do not qualify for hedge accounting are taken directly to the income statement.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The fair value of interest rate swap contracts is determined by reference to market values for similar instruments or reference to the present value of estimated future cash flows.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment (except for foreign currency risk); or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments and hedging (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

#### Fair value hedges

The change in the fair value of a hedging derivative is recognised in the income statement. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the income statement.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the income statement over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortised to the income statement.

Amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the income statement.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the income statement. The changes in the fair value of the hedging instrument are also recognised in the income statement.

#### Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised immediately in the income statement.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects the income statement, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the forecast transaction or firm commitment is no longer expected to occur, the amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, the amounts previously recognised in equity remain in equity until the forecast transaction or firm commitment occurs.

#### Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in the income statement. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to the income statement.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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 overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

### Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, 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 income statement.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement, 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, interests in associates and interests in jointly-controlled entities, 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, interests in associates and interests in jointly-controlled entities, 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.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate. Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the income statement over the expected useful life of the relevant asset by equal annual installments.

### 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) revenue from the rendering of services is recognised based on the percentage of completion of the transaction, provided that the revenue, the costs incurred and the estimated costs to completion can be measured reliably. The percentage of completion is established by reference to the costs incurred to date as compared to the total costs to be incurred under the transaction. Where the outcome of a contract cannot be measured reliably, revenue is recognised only to the extent that the expenses incurred are eligible to be recovered.

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

(d) 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

(e) 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 statement as they become payable, in accordance with the rules of the central pension scheme.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 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. Investment income earned on the temporary investment of specific borrowings pending for their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are recognised as expenses in the income statement in the period in which they are incurred.

### Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

### Foreign currencies

These financial statements are presented in RMB, 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 dates 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 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.

The functional currencies of certain overseas subsidiaries are currencies other than the RMB. 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 RMB at the weighted average exchange rates for the year. The resulting exchange differences are included in the exchange fluctuation reserve. On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

For the purpose of the consolidated cash flow statement, the cash flows of overseas subsidiaries are translated into RMB 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 RMB at the weighted average exchange rates for the year.

## 3. 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. The carrying amount of inventories as at 31 December 2008 was RMB523,293,000 (2007: RMB439,521,000). More details are given in note 22 to the financial statements.

### Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2008 was RMB47,743,000 (2007: RMB1,940,000). More details are given in note 16 to the financial statements.

### Impairment of receivables

The policy for impairment of receivables of the Group is based on the evaluation of collectability and the ageing analysis of trade receivables and on the judgement of the management. A considerable amount of judgment 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 dates. The carrying amount of trade receivables as at 31 December 2008 was RMB711,544,000 (2007: RMB501,680,000). More details are given in note 23 to the financial statements.

### Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2008, the carrying amount of deferred tax assets was RMB12,630,000 (2007: RMB6,956,000). More details are given in note 34 to the financial statements.

### Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. As at 31 December 2008, the carrying amount of capitalised development costs was RMB47,003,000 (2007: Nil).

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

### 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.

## 4. SEGMENT INFORMATION

Segment information is 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 by business or geographical segment is presented.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, net of discounts and returns.

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

| | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| **Revenue:** | | | |
| Sale of goods | | **2,128,363** | 1,554,841 |
| Less: Sales taxes and surcharges | | **(9,040)** | (13,037) |
| | | **2,119,323** | 1,541,804 |
| **Other income and gains:** | | | |
| Interest income | | **18,275** | 29,204 |
| Profit from sale of scrap materials | | **870** | 242 |
| Investment income from financial instruments | | **31,205** | — |
| Gross rental income | | **5,281** | 2,126 |
| Exchange gains, net | | **21,002** | — |
| Value-added tax refund | (i) | **20,897** | 25,570 |
| Technical service income | | **2,945** | 4,849 |
| Government grants | (ii) | **17,965** | 19,638 |
| Others | | **992** | 3,600 |
| Total | | **119,432** | 85,229 |

## 5. REVENUE, OTHER INCOME AND GAINS (continued)

### (i) Value-added tax refund

Sales of goods 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 the 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 the sale of certain products during the years ended 31 December 2008 and 2007.

### (ii) Government grants

Government grants have been received for certain research and development projects. There are no unfulfilled conditions or contingencies attaching to these grants.

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Notes | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|---|
| Cost of inventories sold | | **1,332,142** | 865,480 |
| Staff costs (including directors' and supervisors' remuneration) | (i) | **248,840** | 165,912 |
| Auditors' remuneration | | **5,780** | 4,820 |
| Depreciation of items of property, plant and equipment | 14 | **59,976** | 46,039 |
| Amortisation of prepaid land lease prepayments | 15 | **1,564** | 838 |
| Amortisation of other intangible assets | 17 | **3,514** | 3,230 |
| Minimum lease payments under operating leases in respect of: | | | |
| Land and buildings | | **8,842** | 1,636 |
| Plant and equipment | | **872** | 6,841 |
| Provision for obsolete inventories | | **10,398** | 4,848 |
| Exchange (gains)/losses, net | | **(21,002)** | 19,659 |
| Research and development costs | | **142,028** | 116,583 |
| Less: staff costs included above | | **(34,528)** | (42,673) |
| depreciation and amortisation included above | | **(14,615)** | (10,545) |
| development costs capitalised | 17 | **(47,003)** | — |
| Research and development costs net of staff costs, depreciation, amortisation and development costs capitalised | | **45,882** | 63,365 |
| Loss on disposal of items of property, plant and equipment, net | | **1,358** | 419 |
| Provision for impairment of trade and other receivables, net | | **3,560** | 10,584 |
| Provision for warranties | | **37,071** | 32,206 |
| Interest income | | **(18,275)** | (29,204) |
| Gross rental income | | **(5,281)** | (2,126) |

## 6. PROFIT BEFORE TAX (continued)

### Staff costs

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Wages, salaries and bonuses | 171,996 | 119,139 |
| Contribution to government-operated pension schemes | 20,120 | 15,115 |
| Contribution to a pension annuity plan | 5,323 | 4,366 |
| Welfare and other expenses | 51,401 | 27,292 |
| Total | 248,840 | 165,912 |

In 2006, the Group implemented an employee pension annuity plan. Pursuant to the such pension annuity plan, the Group is required to contribute a fixed percentage of salaries to the annuity plan regularly and has no further payment obligation to the pension annuity plan once the contributions have been made.

## 7. FINANCE COSTS

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Interest paid on bank and other borrowings | 959 | 3,169 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION

Details of the directors' and supervisors' remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Section 161 of the Companies Ordinance, are as follows:

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Fees | — | — |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | 1,467 | 1,725 |
| Performance related bonuses | 630 | 813 |
| Pension scheme contributions | 68 | 60 |
| Total | 2,165 | 2,598 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2008 are as follows:

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| Mr. Ding Rongjun | — | 76 | — | — | 76 |
| Mr. Lu Penghu | — | 180 | 346 | 28 | 554 |
| **Non-executive directors:** | | | | | |
| Mr. Song Yali | — | 66 | — | — | 66 |
| Mr. Liao Bin | — | 76 | — | — | 76 |
| Mr. Ma Yunkun | — | 55 | — | — | 55 |
| **Independent non-executive directors:** | | | | | |
| Mr. Zhou Heliang | — | 32 | — | — | 32 |
| Mr. Gao Yucai | — | 66 | — | — | 66 |
| Mr. Chan Kam Wing, Clement | — | 207 | — | — | 207 |
| Mr. Pao Ping Wing | — | 207 | — | — | 207 |
| Mr. Tan Xiao'ao | — | 66 | — | — | 66 |
| Ms. Liu Chunru | — | 32 | — | — | 32 |
| | — | 1,063 | 346 | 28 | 1,437 |
| **Supervisors:** | | | | | |
| Mr. Zhang Liqiang | — | 46 | — | — | 46 |
| Mr. Pang Yiming | — | 124 | 108 | 18 | 250 |
| Mr. Liu Ke'an | — | 145 | 176 | 22 | 343 |
| Ms. Liu Chunru | — | 21 | — | — | 21 |
| Mr. Shuai Tianlong | — | 34 | — | — | 34 |
| Ms. Wang Kun | — | 34 | — | — | 34 |
| | — | 404 | 284 | 40 | 728 |
| Total | — | 1,467 | 630 | 68 | 2,165 |

## 8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2007 are as follows:

| | Fees RMB'000 | Salaries, allowances and benefits in kind RMB'000 | Performance related bonuses RMB'000 | Pension scheme contributions RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **Executive directors:** | | | | | |
| Mr. Ding Rongjun | — | 203 | 374 | 15 | 592 |
| Mr. Lu Penghu | — | 220 | 241 | 15 | 476 |
| **Non-executive directors:** | | | | | |
| Mr. Liao Bin | — | 94 | — | — | 94 |
| Mr. Tian Lei | — | 67 | — | — | 67 |
| Mr. Song Yali | — | — | — | — | — |
| Mr. Ma Yunkun | — | 54 | — | — | 54 |
| **Independent non-executive directors:** | | | | | |
| Mr. Zhou Heliang | — | 65 | — | — | 65 |
| Mr. Gao Yucai | — | 65 | — | — | 65 |
| Mr. Chan Kam Wing, Clement | — | 205 | — | — | 205 |
| Mr. Pao Ping Wing | — | 205 | — | — | 205 |
| Mr. Tan Xiao'ao | — | 65 | — | — | 65 |
| | — | 1,243 | 615 | 30 | 1,888 |
| **Supervisors:** | | | | | |
| Mr. Jiang Yi | — | 172 | 126 | 15 | 313 |
| Mr. Pang Yiming | — | 137 | 72 | 15 | 224 |
| Mr. Zhang Liqiang | — | 45 | — | — | 45 |
| Mr. He Hongqu | — | 63 | — | — | 63 |
| Ms. Liu Chunru | — | 65 | — | — | 65 |
| Mr. Liu Ke'an | — | — | — | — | — |
| | — | 482 | 198 | 30 | 710 |
| Total | — | 1,725 | 813 | 60 | 2,598 |

The changes of directors and supervisors during the year were as follows:

(1) Zhou Heliang's term as an independent non-executive director has expired on 27 June 2008;

(2) Liu Chunru has resigned as a supervisor on 20 April 2008 and subsequently been appointed as an independent non-executive director on 27 June 2008 for being the successor of Zhou Heliang;

(3) Shuai Tianlong and Wang Kun were appointed as supervisors in replacement of Liu Chunru and He Hongqu on 27 June 2008.

## 9. FIVE HIGHEST PAID EMPLOYEES

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| Directors and supervisors | **1** | 2 |
| Non-director and non-supervisor employees | **4** | 3 |
| | **5** | 5 |

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

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Salaries, allowances and benefits in kind | **1,190** | 1,098 |
| Bonuses | **1,193** | 423 |
| Pension scheme contributions | **105** | 30 |
| | **2,488** | 1,551 |

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

| | **2008** | 2007 |
|---|---|---|
| Nil to HK$1,000,000 | **4** | 3 |

During the year, 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.

There was no arrangement under which a director or a supervisor of the Company waived or agreed to waive any remuneration during the year.

## 10. 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 applicable PRC accounting standards as adjusted for income and expense items which are not assessable or deductible for income tax purpose. The income tax rates for the Company and its subsidiaries are as follows:

(i) Pursuant to a notice issued by the Ministry of Finance and State Tax Bureau and approval documents issued by relevant local tax authorities in respect of the extension of the implementation period of tax policy for transformed scientific research entities, the Company is exempt from CIT from its establishment date up to 30 September 2007. Thereafter, the Company is entitled to a tax rate of 15% for one year starting from 1 October 2007. However, pursuant to the new CIT Law effective on 1 January 2008, Provisional Regulations of the People's Republic of China on Enterprise Income Tax and approval from relevant tax authorities, the Company, being a High & New Technology Enterprise (the "HNTE"), is subject to the preferential CIT rate of 15% for three years from 1 January 2008 to 31 December 2010.

(ii) Zhuzhou Times Electronics Technology Company Ltd. ("Times Electronics") and Zhuzhou Times Guangchuang Convertor Technology Company Ltd. ("Times Guangchuang") are enterprises established in Zhuzhou Hi-technology Development Zone and are subject to CIT at a rate of 15%. As approved by the local tax authorities, Times Electronics is entitled to an exemption from CIT from 1 April 2005 to 30 September 2007. Thereafter, Times Electronics is subject to CIT at a rate of 15% for one year starting from 1 October 2007 according to the approval from relevant tax authorities. From 1 January 2004, Times Guangchuang, as a software development enterprise, is entitled to a 50% reduction of PRC enterprise income tax for the years 2004 to 2006. Accordingly, Times Guangchuang is subject to reduced tax rate of 7.5% until 31 December 2006. Thereafter, Times Guangchuang, being a HNTE, is subject to CIT at the rate of 15% during the year ended 31 December 2007. Pursuant to the new CIT Law effective on 1 January 2008, Provisional Regulations of the People's Republic of China on Enterprise Income Tax and approval from relevant tax authorities, Times Electronics and Times Guangchuang, being HNTEs, are subject to the preferential CIT rate of 15% for three years starting from 1 January 2008.

(iii) As approved by the relevant tax authorities, Ningbo CSR Times Sensor Technology Company Ltd. ("Ningbo Company"), as a scientific research organisation enterprise, is exempt from CIT from 2002 to 2005. In addition, pursuant to relevant tax regulations and the approval from the relevant tax authorities, the CIT exemption granted to Ningbo Company is further extended to the years ended 31 December 2006 and 31 December 2007. Pursuant to the new CIT Law effective on 1 January 2008, Provisional Regulations of the People's Republic of China on Enterprise Income Tax and approval from relevant tax authorities, Ningbo Company, being a HNTE, is subject to the preferential CIT rate of 15% for three years starting from 1 January 2008.

## 10. INCOME TAX EXPENSE (continued)

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

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Current income tax - PRC corporate income tax | 79,179 | 4,390 |
| Deferred income tax credit (note 34) | (5,674) | (6,956) |
| Income tax charge/(credit) for the year | 73,505 | (2,566) |

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 is as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | RMB'000 | % | RMB'000 | % |
| Profit before tax | 496,842 | | 344,911 | |
| Tax at the statutory tax rate | 124,211 | 25.0 | 113,821 | 33.0 |
| Reconciling items: | | | | |
| Profits and losses attributable to a jointly-controlled entity and an associate | (2,009) | (0.4) | (2,325) | (0.7) |
| Expenses not deductible for tax | 7,325 | 1.5 | 10,061 | 2.9 |
| Income not subject to tax | (3,996) | (0.8) | (19,106) | (5.5) |
| Entities subject to lower statutory tax rates | (47,771) | (9.6) | (31,044) | (9.0) |
| Tax exemptions | — | — | (72,548) | (21.0) |
| Tax losses not recognised | 1,319 | 0.3 | 1,350 | 0.4 |
| Others* | (5,574) | (1.1) | (2,775) | (0.8) |
| Total tax charge/(credit) for the year | 73,505 | 14.9 | (2,566) | (0.7) |

* *Others mainly comprised income tax benefits on research and development expenditure.*

The share of tax attributable to a jointly-controlled entity amounting to RMB1,187,000 (2007: Nil) is included in "Share of profit and loss of a jointly-controlled entity" on the face of the consolidated income statement.

## 11. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE PARENT

The consolidated profit attributable to the equity holders of the parent for the year ended 31 December 2008 includes a profit of RMB356,570,000 (2007: RMB227,764,000), which has been dealt with in the financial statements of the Company (note 36(b)).

## 12. DIVIDENDS

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Proposed final - RMB0.155 (2007: RMB0.145) per ordinary share | **168,060** | 157,217 |
| | **168,060** | 157,217 |

The proposed final dividend for the year ended 31 December 2007 has been approved by the Company's shareholders at the annual general meeting in June 2008, while the proposed final dividend for the year ended 31 December 2008 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 13. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculation of basic earnings per share is based on:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| **Earnings:** | | |
| Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation | **422,300** | 347,389 |
| **Shares:** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation | **1,084,255,637** | 1,084,255,637 |

No diluted earnings per share amounts have been disclosed as no diluting events existed during the years ended 31 December 2008 and 2007.

## 14. PROPERTY, PLANT AND EQUIPMENT

### The Group

| | Buildings RMB'000 | Plant, machinery and equipment RMB'000 | Computer equipment and others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2008** | | | | | |
| At 31 December 2007 and at 1 January 2008: | | | | | |
| Cost | 305,542 | 245,100 | 85,617 | 150,102 | 786,361 |
| Accumulated depreciation and impairment | (69,611) | (88,050) | (37,728) | — | (195,389) |
| Net carrying amount | 235,931 | 157,050 | 47,889 | 150,102 | 590,972 |
| At 1 January 2008, net of accumulated depreciation and impairment | 235,931 | 157,050 | 47,889 | 150,102 | 590,972 |
| Reclassification | — | 2,140 | (2,140) | — | — |
| Acquisition of subsidiaries (note 37) | — | 18,942 | — | 10,264 | 29,206 |
| Additions | — | 41,864 | 31,961 | 305,900 | 379,725 |
| Disposals | — | (2,077) | (212) | — | (2,289) |
| Depreciation provided during the year | (14,246) | (30,393) | (15,337) | — | (59,976) |
| Transfers | 181,940 | 18,435 | 3,179 | (203,554) | — |
| Exchange realignment | — | (2,561) | — | (1,827) | (4,388) |
| At 31 December 2008, net of accumulated depreciation and impairment | 403,625 | 203,400 | 65,340 | 260,885 | 933,250 |
| At 31 December 2008: | | | | | |
| Cost | 487,482 | 324,404 | 118,405 | 262,712 | 1,193,003 |
| Accumulated depreciation and impairment | (83,857) | (121,004) | (53,065) | (1,827) | (259,753) |
| Net carrying amount | 403,625 | 203,400 | 65,340 | 260,885 | 933,250 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

### The Group (continued)

| | Buildings RMB'000 | Plant, machinery and equipment RMB'000 | Computer equipment and others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2007** | | | | | |
| At 31 December 2006 and at 1 January 2007: | | | | | |
| Cost | 222,020 | 162,891 | 69,169 | 65,201 | 519,281 |
| Accumulated depreciation and impairment | (55,332) | (67,323) | (28,742) | — | (151,397) |
| Net carrying amount | 166,688 | 95,568 | 40,427 | 65,201 | 367,884 |
| At 1 January 2007, net of accumulated depreciation and impairment | 166,688 | 95,568 | 40,427 | 65,201 | 367,884 |
| Reclassification | (1,075) | 925 | 150 | — | — |
| Acquisition of a subsidiary | — | 797 | 506 | 237 | 1,540 |
| Consolidation of a subsidiary due to obtaining additional voting rights | — | — | 58 | — | 58 |
| Additions | 190 | 70,179 | 18,326 | 179,404 | 268,099 |
| Disposals | (22) | (209) | (339) | — | (570) |
| Depreciation provided during the year | (13,574) | (20,241) | (12,224) | — | (46,039) |
| Transfers | 83,724 | 10,031 | 985 | (94,740) | — |
| At 31 December 2007, net of accumulated depreciation and impairment | 235,931 | 157,050 | 47,889 | 150,102 | 590,972 |
| At 31 December 2007: | | | | | |
| Cost | 305,542 | 245,100 | 85,617 | 150,102 | 786,361 |
| Accumulated depreciation and impairment | (69,611) | (88,050) | (37,728) | — | (195,389) |
| Net carrying amount | 235,931 | 157,050 | 47,889 | 150,102 | 590,972 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

### The Company

| | Buildings RMB'000 | Plant, machinery and equipment RMB'000 | Computer equipment and others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2008** | | | | | |
| At 31 December 2007 and at 1 January 2008: | | | | | |
| Cost | 191,780 | 232,512 | 66,162 | 121,284 | 611,738 |
| Accumulated depreciation and impairment | (53,331) | (82,969) | (29,248) | — | (165,548) |
| Net carrying amount | 138,449 | 149,543 | 36,914 | 121,284 | 446,190 |
| At 1 January 2008, net of accumulated depreciation and impairment | 138,449 | 149,543 | 36,914 | 121,284 | 446,190 |
| Reclassification | — | 424 | (424) | — | — |
| Additions | — | 35,448 | 23,973 | 268,936 | 328,357 |
| Disposal | — | (1,680) | (1,112) | — | (2,792) |
| Depreciation provided during the year | (9,454) | (28,114) | (11,847) | — | (49,415) |
| Transfers | 133,105 | 4,410 | 309 | (137,824) | — |
| At 31 December 2008, net of accumulated depreciation and impairment | 262,100 | 160,031 | 47,813 | 252,396 | 722,340 |
| At 31 December 2008: | | | | | |
| Cost | 324,885 | 271,114 | 88,908 | 252,396 | 937,303 |
| Accumulated depreciation and impairment | (62,785) | (111,083) | (41,095) | — | (214,963) |
| Net carrying amount | 262,100 | 160,031 | 47,813 | 252,396 | 722,340 |

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

### The Company (continued)

| | Buildings RMB'000 | Plant, machinery and equipment RMB'000 | Computer equipment and others RMB'000 | Construction in progress RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **31 December 2007** | | | | | |
| At 31 December 2006 and at 1 January 2007: | | | | | |
| Cost | 177,167 | 147,365 | 52,369 | 14,306 | 391,207 |
| Accumulated depreciation and impairment | (39,780) | (65,821) | (20,380) | — | (125,981) |
| Net carrying amount | 137,387 | 81,544 | 31,989 | 14,306 | 265,226 |
| At 1 January 2007, net of accumulated depreciation and impairment | 137,387 | 81,544 | 31,989 | 14,306 | 265,226 |
| Reclassification | (4,351) | 4,411 | (60) | — | — |
| Additions | — | 72,241 | 13,713 | 132,829 | 218,783 |
| Depreciation provided during the year | (9,574) | (18,532) | (9,713) | — | (37,819) |
| Transfers | 14,987 | 9,879 | 985 | (25,851) | — |
| At 31 December 2007, net of accumulated depreciation and impairment | 138,449 | 149,543 | 36,914 | 121,284 | 446,190 |
| At 31 December 2007: | | | | | |
| Cost | 191,780 | 232,512 | 66,162 | 121,284 | 611,738 |
| Accumulated depreciation and impairment | (53,331) | (82,969) | (29,248) | — | (165,548) |
| Net carrying amount | 138,449 | 149,543 | 36,914 | 121,284 | 446,190 |

As at 31 December 2008, certain of a subsidiary's property, plant and equipment with a net book value of approximately RMB36,419,000 (2007: Nil) were pledged to secure general banking facilities granted to the Group (note 32).

## 15. PREPAID LAND LEASE PAYMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Carrying amount at 1 January | **75,501** | 32,792 | **52,017** | 8,788 |
| Additions | **—** | 43,547 | **—** | 43,547 |
| Amortisation provided during the year | **(1,564)** | (838) | **(1,044)** | (318) |
| Carrying amount at 31 December | **73,937** | 75,501 | **50,973** | 52,017 |

The leasehold land is held under medium term leases and is situated in the PRC.

## 16. GOODWILL

### The Group

| | RMB'000 |
|---|---|
| At 1 January 2007: | |
| Cost | — |
| Accumulated impairment | — |
| Net carrying amount | — |
| Cost at 1 January 2007, net of accumulated impairment | — |
| Acquisition of a subsidiary | 1,940 |
| Impairment during the year | — |
| At 31 December 2007 | 1,940 |
| At 31 December 2007: | |
| Cost | 1,940 |
| Accumulated impairment | — |
| Net carrying amount | 1,940 |
| Cost at 1 January 2008, net of accumulated impairment | 1,940 |
| Acquisition of subsidiaries (note 37) | 52,407 |
| Impairment during the year | — |
| Exchange realignment | (6,604) |
| Cost and carrying amount at 31 December 2008 | 47,743 |
| At 31 December 2008: | |
| Cost | 47,743 |
| Accumulated impairment | — |
| Net carrying amount | 47,743 |

## 16. GOODWILL (continued)

### Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to an individual cash-generating unit ("CGU"), mainly represented by the power semiconductor and integrated circuit product lines, for impairment testing. The recoverable amount of this CGU has been determined based on value in use calculation using cash flow projections based on financial budgets covering a period from 2009 to 2017 approved by management. The discount rate applied to the cash flow projection is 15%, which is based on the weighted average cost of capital, and cash flows beyond the financial budget period are extrapolated using a growth rate of 2%.

Key assumptions were used in the value in use calculation of the CGU of power semiconductors and integrated circuit products for the year ended 31 December 2008. The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

*Budgeted gross margins* – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements.

*Discount rate* – The discount rate used is before tax and reflects specific risks relating to the relevant unit.

## 17. OTHER INTANGIBLE ASSETS

**The Group**

| | Patents, licences and technical know-how RMB'000 | Computer software RMB'000 | Deferred development costs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2008** | | | | |
| Cost at 1 January 2008, net of accumulated amortisation | **8,122** | **7,503** | **—** | **15,625** |
| Acquisition of subsidiaries (note 37) | **29,364** | **—** | **—** | **29,364** |
| Additions | **—** | **2,779** | **47,003** | **49,782** |
| Amortisation provided during the year | **(1,699)** | **(1,815)** | **—** | **(3,514)** |
| Exchange realignment | **(3,700)** | **—** | **—** | **(3,700)** |
| At 31 December 2008 | **32,087** | **8,467** | **47,003** | **87,557** |
| At 31 December 2008: | | | | |
| Cost | **41,764** | **13,345** | **47,003** | **102,112** |
| Accumulated amortisation | **(9,677)** | **(4,878)** | **—** | **(14,555)** |
| Net carrying amount | **32,087** | **8,467** | **47,003** | **87,557** |
| **31 December 2007** | | | | |
| At 1 January 2007: | | | | |
| Cost | 16,100 | 6,621 | — | 22,721 |
| Accumulated amortisation | (6,327) | (1,464) | — | (7,791) |
| Net carrying amount | 9,773 | 5,157 | — | 14,930 |
| Cost at 1 January 2007, net of accumulated amortisation | 9,773 | 5,157 | — | 14,930 |
| Acquisition of a subsidiary | — | 14 | — | 14 |
| Additions | — | 3,911 | — | 3,911 |
| Amortisation provided during the year | (1,651) | (1,579) | — | (3,230) |
| At 31 December 2007 | 8,122 | 7,503 | — | 15,625 |
| At 31 December 2007 and at 1 January 2008: | | | | |
| Cost | 16,100 | 10,566 | — | 26,666 |
| Accumulated amortisation | (7,978) | (3,063) | — | (11,041) |
| Net carrying amount | 8,122 | 7,503 | — | 15,625 |

## 17. OTHER INTANGIBLE ASSETS (continued)

**The Company**

| | Patents, licences and technical know-how RMB'000 | Computer software RMB'000 | Deferred development costs RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **31 December 2008** | | | | |
| Cost at 1 January 2008, net of accumulated amortisation | 8,122 | 6,981 | — | 15,103 |
| Additions | — | 2,662 | 41,327 | 43,989 |
| Amortisation provided during the year | (1,652) | (1,516) | — | (3,168) |
| At 31 December 2008 | 6,470 | 8,127 | 41,327 | 55,924 |
| At 31 December 2008: | | | | |
| Cost | 16,100 | 12,120 | 41,327 | 69,547 |
| Accumulated amortisation | (9,630) | (3,993) | — | (13,623) |
| Net carrying amount | 6,470 | 8,127 | 41,327 | 55,924 |
| **31 December 2007** | | | | |
| At 1 January 2007: | | | | |
| Cost | 16,100 | 5,561 | — | 21,661 |
| Accumulated amortisation | (6,327) | (1,192) | — | (7,519) |
| Net carrying amount | 9,773 | 4,369 | — | 14,142 |
| Cost at 1 January 2007, net of accumulated amortisation | 9,773 | 4,369 | — | 14,142 |
| Additions | — | 3,897 | — | 3,897 |
| Amortisation provided during the year | (1,651) | (1,285) | — | (2,936) |
| At 31 December 2007 | 8,122 | 6,981 | — | 15,103 |
| At 31 December 2007 and at 1 January 2008: | | | | |
| Cost | 16,100 | 9,458 | — | 25,558 |
| Accumulated amortisation | (7,978) | (2,477) | — | (10,455) |
| Net carrying amount | 8,122 | 6,981 | — | 15,103 |

## 18. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Unlisted investments, at cost | **170,568** | 167,568 |
| Listed investments, at cost | **107,317** | — |
| Loan to a subsidiary | **17,635** | — |
| | **295,520** | 167,568 |

The loan to a subsidiary included in the Company's non-current assets which equivalent to RMB17,635,000 (2007: Nil) is denominated in Hong Kong dollars. The balance is unsecured, bears interest rate at 8% per annum and is repayable in 2011.

Particulars of the subsidiaries as at 31 December 2008 are as follows:

| **Name** | **Note** | **Place of incorporation/ registration and operations** | **Paid-up/ registered capital** | **Percentage of equity interest attributable to the Company** | | **Principal activities** |
|---|---|---|---|---|---|---|
| | | | | **Direct** | **Indirect** | |
| Ningbo Company | | PRC | RMB48,826,200 | 100 | — | Manufacture and sale of sensors and vacuum sanitary units |
| Times Electronics | | PRC | RMB80,000,000 | 100 | — | Manufacture and sale of electrical control systems for large railway maintenance vehicles |
| Times Guangchuang | (i) | PRC | RMB3,000,000 | — | 100 | Manufacture and sale of power supply equipment for air conditioners of locomotives |
| Zhuzhou Times Zhuoyue Automobile Electronics Technology Co., Ltd. ("Times Zhuoyue") | | PRC | RMB5,000,000 | — | 40 | Manufacture and sale of automotive electronic products and computer control software |
| Times Electric USA, LLC | | United States of America | US$200,000 | 100 | — | Sale of electric, electronic and mechanical products |
| Zhuzhou Times Equipment Technology Co., Ltd. ("Times Equipment") | | PRC | RMB11,000,000 | 100 | — | Manufacture and sale of vibration absorber and testing equipment |

## 18. INTERESTS IN SUBSIDIARIES (continued)

Particulars of the subsidiaries as at 31 December 2008 are as follows: (continued)

| Name | Notes | Place of incorporation/ registration and operations | Paid-up/ registered capital | Percentage of equity interest attributable to the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct | Indirect | |
| Beijing CSR Times Information Technology Co., Ltd. ("Times Information") | | PRC | RMB29,000,000 | 100 | — | Manufacture and sale of train operation safety equipment |
| Shenyang CSR Times Transportation Equipment Co., Ltd. ("Times Shenyang") | (ii) | PRC | RMB3,000,000 | 100 | — | Manufacture and sale of electric components for rail transit vehicles |
| Dynex Power Inc. ("Dynex Power") | (iii) | Canada | CAD15,051,123 | 75 | — | Investment holding |
| Dynex Semiconductor Limited. ("Dynex Semiconductor") | (iii) | United Kingdom | GBP3,750,000 | — | 75 | Manufacture and sale of power semiconductors and integrated circuit products |

Notes:

(i) In December 2008, Times Electronics acquired the remaining 15% equity interest of Times Guangchuang from the individual minority shareholders at a cash consideration of RMB2,133,000. After the acquisition, Times Guangchuang became a wholly-owned subsidiary of the Company.

(ii) In May 2008, the Company made a capital contribution of RMB3,000,000 to a newly established subsidiary, Times Shenyang, for the 100% equity interest therein. Hence Times Shenyang became a new wholly-owned subsidiary of the Company as at 31 December 2008.

(iii) During the year, the Company acquired a 75% equity interest of Dynex Power. Further details of this acquisition are included in note 37 to the financial statements.

## 19. INTEREST/INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted equity investments, at cost | **—** | — | **63,515** | 63,515 |
| Share of net assets | **81,325** | 79,016 | **—** | — |
| | **81,325** | 79,016 | **63,515** | 63,515 |

Particulars of the jointly-controlled entity as at 31 December 2008 are as follows:

| Name | Place of incorporation/ registration and operations | Paid-up/ registered capital | Percentage of equity interest attributable to the Company | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Zhuzhou Shiling | PRC | US$14,000,000 | 50 | — | Manufacture and sale of electric components for rail transit vehicles |

The following table illustrates the summarised financial information of the Group's jointly-controlled entity:

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Share of the jointly-controlled entity's assets and liabilities: | | |
| Non-current assets | **30,658** | 32,312 |
| Current assets | **62,484** | 65,090 |
| Non-current liabilities | **—** | — |
| Current liabilities | **(11,817)** | (18,386) |
| Net assets | **81,325** | 79,016 |
| Share of the jointly-controlled entity's results: | | |
| Revenue | **74,620** | 49,027 |
| Other income | **41** | 1,117 |
| | **74,661** | 50,144 |
| Total expenses | **(65,165)** | (34,643) |
| Tax | **(1,187)** | — |
| Profit after tax | **8,309** | 15,501 |

## 20. INTEREST/INVESTMENT IN AN ASSOCIATE

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Unlisted equity investments, at cost | **—** | — | **19,180** | — |
| Share of net assets | **17,458** | — | **—** | — |
| Goodwill on acquisition | **1,448** | — | **—** | — |
| | **18,906** | — | **19,180** | — |

On 16 September 2008, the Company and ZELRI entered into an agreement, pursuant to which ZELRI agreed to transfer to the Company its 17% equity interest in Siemens Traction Equipment Ltd., Zhuzhou （株州西門子牽引動力設備有限公司, "Zhuzhou Siemens"） for a consideration of RMB10,869,000. On the same date, the Company entered into another agreement with CSR Zhuzhou Electric Locomotive Co., Ltd. ("CSR Zhuzhou"), a fellow subsidiary of ZELRI, pursuant to which CSR Zhuzhou agreed to transfer to the Company its 12% equity interest in Zhuzhou Siemens for a consideration of RMB7,672,000.

During the same month, the Company also entered into an agreement with Siemens Limited, China ("China Siemens"), pursuant to which China Siemens agreed to transfer its 1% equity interest in Zhuzhou Siemens to the Company for a consideration of RMB639,000.

On 13 November 2008, the above-mentioned acquisitions were completed and the Company holds a 30% equity interest in Zhuzhou Siemens thereafter. Upon the completion of acquisitions, Zhuzhou Siemens became an associate of the Company.

Particulars of the associate as at 31 December 2008 are as follows:

| Name | Place of incorporation/ registration and operations | Paid-up/ registered capital | Percentage of equity interest attributable to the Company Direct | Percentage of equity interest attributable to the Company Indirect | Principal activities |
|---|---|---|---|---|---|
| Zhuzhou Siemens | PRC | RMB128,989,000 | 30 | — | Manufacture and sale of electric components for AC electric locomotive |

## 20. INTEREST/INVESTMENT IN AN ASSOCIATE (continued)

The following table illustrates the summarised financial information of the Group's associate:

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Share of the associate's assets and liabilities: | | |
| Non-current assets | 399 | — |
| Current assets | 60,114 | — |
| Current liabilities | (43,055) | — |
| Net assets | 17,458 | — |
| Share of the associate's results: | | |
| Revenue | 2,360 | — |
| Other income | 13 | — |
| | 2,373 | — |
| Total expenses | (2,647) | — |
| Tax | — | — |
| Profit after tax | (274) | — |

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | The Group | |
|---|---|---|
| | 2008<br>RMB'000 | 2007<br>RMB'000 |
| At cost: | | |
| Unlisted equity investments | 400 | 400 |

## 22. INVENTORIES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Raw materials | **266,324** | 222,024 | **208,084** | 181,073 |
| Work in progress | **113,980** | 79,444 | **82,165** | 75,101 |
| Finished goods | **141,780** | 136,884 | **121,669** | 120,732 |
| Consumables and packing materials | **1,209** | 1,169 | **683** | 759 |
| | **523,293** | 439,521 | **412,601** | 377,665 |

As at 31 December 2008, certain inventories of a subsidiary with a net book value of approximately RMB47,039,000 (2007: Nil) were pledged to secure the general banking facilities granted to the Group (note 32).

## 23. TRADE RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables | **746,537** | 546,985 | **591,966** | 455,057 |
| Less: Provision for impairment of receivables | **(34,993)** | (45,305) | **(30,134)** | (33,469) |
| | **711,544** | 501,680 | **561,832** | 421,588 |

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 conducts its business.

## 23. TRADE RECEIVABLES (continued)

An aged analysis of the trade receivables as at the balance sheet date, based on the invoice date and net of provision for impairment of receivables, is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 1 year | **662,131** | 438,492 | **519,568** | 372,519 |
| Over 1 year but within 2 years | **38,268** | 50,336 | **31,814** | 39,730 |
| Over 2 years but within 3 years | **11,145** | 12,852 | **10,450** | 9,339 |
| Over 3 years | **—** | — | **—** | — |
| | **711,544** | 501,680 | **561,832** | 421,588 |

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade receivables from: | | | | |
| CSRG and its subsidiaries (other than the Group) | **212,047** | 63,419 | **190,914** | 57,438 |
| Subsidiaries | **—** | — | **19,576** | 111,604 |
| Jointly-controlled entity | **908** | 25 | **800** | 2 |
| Third parties | **498,589** | 438,236 | **350,542** | 252,544 |
| | **711,544** | 501,680 | **561,832** | 421,588 |

As at 31 December 2008, certain of a subsidiary's trade receivables with a net book value of approximately RMB30,189,000 (2007: Nil) were pledged to secure the general banking facilities granted to the Group (note 32).

The amounts due from the jointly-controlled entity, CSRG and its subsidiaries included in the Group's and the Company's trade receivables, as well as the amounts due from subsidiaries included in the Company's trade receivables are unsecured, interest-free and repayable on demand.

## 23. TRADE RECEIVABLES (continued)

The movements in provision for impairment of trade receivables are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| At 1 January | 45,305 | 35,038 | 33,469 | 26,702 |
| Impairment losses recognised | 9,533 | 10,242 | 8,377 | 6,857 |
| Amount written off as uncollectible | (13,253) | (21) | (8,689) | (18) |
| Impairment losses reversed | (6,897) | (72) | (3,023) | (72) |
| Acquisition of subsidiaries | 305 | 118 | — | — |
| | 34,993 | 45,305 | 30,134 | 33,469 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB6,899,000 (2007: RMB6,882,161) with carrying amount of RMB6,899,000 (2007: RMB10,224,610). The Group does not hold collateral or other credit enhancements over these balances.

The aged analysis of the trade receivables that are not considered to be impaired is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Neither past due nor impaired | 614,936 | 352,484 | 468,765 | 296,646 |
| Less than 6 months past due | — | — | — | — |
| 6 months to 1 year past due | — | — | — | — |
| | 614,936 | 352,484 | 468,765 | 296,646 |

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

## 24. BILLS RECEIVABLE

The maturity profiles of the bills receivable of the Group and the Company as at the balance sheet date are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Within 3 months | 7,115 | 165,692 | 64,815 | 151,032 |
| Over 3 months but within 6 months | 320,822 | 92,508 | 234,772 | 58,238 |
| | 327,937 | 258,200 | 299,587 | 209,270 |

## 25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Prepayments, deposits and other receivables: | | | | |
| CSRG and its subsidiaries | | | | |
| (other than the Group) | **9,870** | 23,069 | **9,850** | 23,069 |
| Subsidiaries | **—** | — | **93,148** | 54,734 |
| Third parties | **440,646** | 141,413 | **419,731** | 135,095 |
| | **450,516** | 164,482 | **522,729** | 212,898 |

The amounts due from CSRG and its subsidiaries included in the Group's and the Company's prepayments, deposits and other receivables, and the amounts due from subsidiaries included in the Company's prepayments, deposits and other receivables are unsecured, interest-free and repayable on demand.

Included in other receivables as at 31 December 2008 are investments in short term maturity financial instruments with principal repayment guaranteed by banks aggregating to RMB300 million (31 December 2007: Nil). Such financial instruments are due from January 2009 to March 2009, and have interest returns ranging from 7.20% per annum to 7.47% per annum. The respective interest income is included in "investment income from financial instruments" as disclosed in note 5 to the financial statements.

## 26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Deposits and investments with embedded derivatives | **100,000** | — | **100,000** | — |

The principals of the above deposits and investments amounting to RMB100 million at 31 December 2008 (31 December 2007: Nil) are guaranteed by banks with repayment due date within one year. The returns thereon vary in response to the changes in certain commodity price index and inflation index, and hence constitute embedded derivatives to deposits and investments. The entire deposits and investments including the related embedded derivatives are accounted for as financial assets designated at fair value through profit or loss.

No changes in fair value was recognised in the income statement for the year ended 31 December 2008 because the aggregate changes of fair values of such financial assets were immaterial since their respective acquisition dates.

## 27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | | The Group | | The Company | |
|---|---|---|---|---|---|
| | | **2008** | 2007 | **2008** | 2007 |
| | Note | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Cash and bank balances | | **740,084** | 710,610 | **659,263** | 626,718 |
| Time deposits | | **60,000** | 800,000 | **–** | 800,000 |
| | | **800,084** | 1,510,610 | **659,263** | 1,426,718 |
| Less: Pledged deposits against banking facilities | 32 | **(3,362)** | (7) | **–** | (7) |
| Cash and cash equivalents in the consolidated balance sheet | | **796,722** | 1,510,603 | **659,263** | 1,426,711 |
| Less: Non-pledged time deposits with original maturity of three months or more when acquired | | **(60,000)** | (800,000) | **–** | (800,000) |
| Cash and cash equivalents in the consolidated cash flow statement | | **736,722** | 710,603 | **659,263** | 626,711 |
| Cash and bank balances and time deposits denominated in: | | | | | |
| – RMB | | **721,254** | 1,486,536 | **585,816** | 1,402,870 |
| – Hong Kong dollars | | **7,578** | 5,335 | **7,578** | 5,335 |
| – United States dollars | | **11,057** | 704 | **6,636** | 478 |
| – European currency units | | **11,969** | 7,651 | **11,859** | 7,651 |
| – Japanese Yen | | **47,374** | 10,384 | **47,374** | 10,384 |
| – Other currencies | | **852** | — | **–** | — |
| | | **800,084** | 1,510,610 | **659,263** | 1,426,718 |

The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and two years, depending on the immediate cash requirements of the Group, and earn interest at the respective short-term or long-term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 28. TRADE PAYABLES

An aged analysis of the trade payables as at the balance sheet date, based on the invoice date, is as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 3 months | **333,479** | 187,725 | **351,075** | 238,275 |
| Over 3 months but within 1 year | **30,802** | 24,894 | **39,638** | 26,413 |
| Over 1 year but within 2 years | **3,821** | 7,046 | **4,794** | 6,300 |
| Over 2 years but within 3 years | **408** | 1,287 | **248** | 750 |
| Over 3 years | **1,848** | 728 | **604** | 432 |
| | **370,358** | 221,680 | **396,359** | 272,170 |

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Trade payables to: | | | | |
| CSRG and its subsidiaries | | | | |
| (other than the Group) | **21,372** | 11,756 | **14,139** | 9,622 |
| Subsidiaries | **—** | — | **102,167** | 102,155 |
| Jointly-controlled entity | **55,115** | 15,459 | **55,115** | 15,459 |
| Third parties | **293,871** | 194,465 | **224,938** | 144,934 |
| | **370,358** | 221,680 | **396,359** | 272,170 |

The amounts due to the jointly-controlled entity, CSRG and its subsidiaries included in the Group's and the Company's trade payables, and the amounts due to subsidiaries included in the Company's trade payables are unsecured, interest-free and repayable on demand. The normal credit period for trade payables is three months.

## 29. BILLS PAYABLE

The maturity profiles of the bills payable of the Group and the Company as at the balance sheet date are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within 3 months | **18,017** | 13,860 | **18,017** | 13,860 |
| Over 3 months but within 6 months | **28,217** | 34,312 | **30,277** | 34,312 |
| | **46,234** | 48,172 | **48,294** | 48,172 |

## 30. OTHER PAYABLES AND ACCRUALS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Receipts in advance | **111,742** | 75,368 | **107,036** | 71,926 |
| Other payables | **34,458** | 21,332 | **16,357** | 9,547 |
| Accruals | **39,405** | 41,199 | **17,951** | 33,742 |
| Amounts due to CSRG and its subsidiaries (other than the Group) | **8,322** | 11,256 | **7,181** | 11,246 |
| Subsidiaries | **—** | — | **110** | 10,150 |
| | **193,927** | 149,155 | **148,635** | 136,611 |

The other payables are non-interest-bearing and have an average term of three months. The amounts due to CSRG and its subsidiaries included in the Group's and the Company's other payables and accruals, and the amounts due to subsidiaries included in the Company's other payables and accruals are unsecured, interest-free and repayable on demand.

## 31. PROVISION FOR WARRANTIES

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| At beginning of year | **45,646** | 36,898 | **35,461** | 26,095 |
| Provision made during the year | **37,071** | 32,206 | **33,690** | 31,195 |
| Amounts utilised | **(31,144)** | (23,458) | **(28,885)** | (21,829) |
| At end of year | **51,573** | 45,646 | **40,266** | 35,461 |

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.

## 32. INTEREST-BEARING BANK AND OTHER BORROWINGS

**The Group**

| | 2008 | | | 2007 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **RMB'000** | Effective interest rate (%) | Maturity | RMB'000 |
| **Current** | | | | | | |
| Bank loans - secured | **4.60-7.20** | **2009** | **19,812** | — | — | — |
| Current portion of long term other borrowings | | | | | | |
| - unsecured | **Interest-free** | **2009** | **254** | — | — | — |
| bank loans - secured | **4.74-6.56** | **2009** | **637** | — | — | — |
| | | | **20,703** | | | — |
| **Non-current** | | | | | | |
| Bank loans - secured | **4.74-6.56** | **2010 - 2015** | **3,584** | — | — | — |
| Other borrowings | | | | | | |
| - unsecured | **Interest-free** | **2010 - 2011** | **152** | — | — | — |
| | | | **3,736** | | | — |
| | | | **24,439** | | | — |

## 32. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

### The Group

| | 2008 RMB'000 | 2007 RMB'000 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | 20,449 | — |
| In the second year | 631 | — |
| In the third to fifth years, inclusive | 2,286 | — |
| Beyond five years | 667 | — |
| | 24,033 | — |
| Other borrowings repayable: | | |
| Within one year or on demand | 254 | — |
| In the second year | 138 | — |
| In the third to fifth years, inclusive | 14 | — |
| Beyond five years | — | — |
| | 406 | — |
| | 24,439 | — |
| Interest-bearing bank and other borrowings denominated in: | | |
| Great British Pound | 11,247 | — |
| European Currency Units | 6,924 | — |
| United States Dollars | 6,268 | — |
| | 24,439 | — |

The above secured bank loans and other banking facilities were secured by certain assets and their carrying values are as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | 2008 RMB'000 | 2007 RMB'000 | 2008 RMB'000 | 2007 RMB'000 |
| Property, plant and equipment | 36,419 | — | — | — |
| Inventories | 47,039 | — | — | — |
| Trade receivables | 30,189 | — | — | — |
| Cash and cash equivalents | 3,362 | 7 | — | 7 |
| | 117,009 | 7 | — | 7 |

The carrying amounts of the Group's borrowings approximate to their fair values. The fair value of bank loans and other borrowings has been calculated by discounting the expected future cash flows at prevailing interest rates.

## 33. GOVERNMENT GRANTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Current portion | **6,916** | 14,211 | **6,746** | 13,996 |
| Long-term portion | **27,000** | — | **27,000** | — |
| | **33,916** | 14,211 | **33,746** | 13,996 |

The movements of the government grants are analysed as follows:

| | The Group | The Company |
|---|---|---|
| | RMB'000 | RMB'000 |
| **31 December 2008** | | |
| At 1 January 2008 | **14,211** | **13,996** |
| Entitled during the year | **37,670** | **34,315** |
| Recognised as other income during the year | **(17,965)** | **(14,565)** |
| At 31 December 2008 | **33,916** | **33,746** |
| **31 December 2007** | | |
| At 1 January 2007 | — | — |
| Entitled during the year | 14,211 | 13,996 |
| Recognised as other income during the year | — | — |
| At 31 December 2007 and at 1 January 2008 | 14,211 | 13,996 |

## 34. DEFERRED TAX

The movements in the deferred tax assets during the year are as follows:

**The Group**

| | 2008 Government grants RMB'000 | 2008 Warranties claim provision RMB'000 | 2008 Total RMB'000 | 2007 Government grants RMB'000 | 2007 Warranties claim provision RMB'000 | 2007 Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January | — | 6,956 | 6,956 | — | — | — |
| Deferred tax credited to the income statement during the year (note 10) | 4,990 | 684 | 5,674 | — | 6,956 | 6,956 |
| At 31 December | 4,990 | 7,640 | 12,630 | — | 6,956 | 6,956 |

**The Company**

| | 2008 Government grants RMB'000 | 2008 Warranties claim provision RMB'000 | 2008 Total RMB'000 | 2007 Government grants RMB'000 | 2007 Warranties claim provision RMB'000 | 2007 Total RMB'000 |
|---|---|---|---|---|---|---|
| At 1 January | — | 5,593 | 5,593 | — | — | — |
| Deferred tax credited to the income statement during the year | 4,964 | 388 | 5,352 | — | 5,593 | 5,593 |
| At 31 December | 4,964 | 5,981 | 10,945 | — | 5,593 | 5,593 |

## 34. DEFERRED TAX (continued)

The movements in the deferred tax liabilities during the year are as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **Fair value adjustments arising from acquisition of subsidiaries** | Fair value adjustments arising from acquisition of subsidiaries |
| | **RMB'000** | RMB'000 |
| At 1 January | **—** | — |
| Acquisition of subsidiaries (note 37) | **10,155** | — |
| Exchange realignment | **(1,279)** | — |
| At 31 December | **8,876** | — |

The tax rate of 28%, which was the applicable tax rate of Dynex Semiconductor, was used in the calculation of deferred tax liabilities as at 31 December 2008.

## 35. SHARE CAPITAL

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Registered, issued and fully paid | | |
| - domestic shares of RMB1.00 each | **628,148** | 628,148 |
| - H shares of RMB1.00 each | **456,108** | 456,108 |
| | **1,084,256** | 1,084,256 |

There was no movement in the share capital during the years ended 31 December 2008 and 2007.

## 36. RESERVES

### (a) Group

The amount of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity in these consolidated financial statements.

### (b) Company

| | Note | Capital reserve RMB'000 | Statutory reserve RMB'000 | Proposed final dividend RMB'000 | Retained profits RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|
| 1 January 2007 | | 1,486,348 | 38,517 | 36,865 | 52,434 | 1,614,164 |
| Profit for the year | | — | — | — | 227,764 | 227,764 |
| Total income and expense for the year | | — | — | — | 227,764 | 227,764 |
| Adjustment of appropriation to reserve upon adoption of new PRC accounting standards | | — | (10,039) | — | 10,039 | — |
| Final 2006 dividend declared | | — | — | (36,865) | 83 | (36,782) |
| Transfer from retained profits | | — | 23,809 | — | (23,809) | — |
| Proposed final 2007 dividend | 12 | — | — | 157,217 | (157,217) | — |
| At 31 December 2007 and 1 January 2008 | | **1,486,348 *** | **52,287*** | **157,217** | **109,294*** | **1,805,146** |
| Profit for the year | | **—** | **—** | **—** | **356,570** | **356,570** |
| Total income and expense for the year | | **—** | **—** | **—** | **356,570** | **356,570** |
| Final 2007 dividend declared | | **—** | **—** | **(157,217)** | **217** | **(157,000)** |
| Transfer from retained profits | | **—** | **35,405** | **—** | **(35,405)** | **—** |
| Proposed final 2008 dividend | 12 | **—** | **—** | **168,060** | **(168,060)** | **—** |
| At 31 December 2008 | | **1,486,348*** | **87,692*** | **168,060** | **262,616*** | **2,004,716** |

* These reserve accounts comprise the reserves of RMB1,836,656,000 (2007: RMB1,647,929,000 ) in the Company's balance sheet.

## 36. RESERVES (continued)

### (b) Company (continued)

Notes:

In accordance with the articles of association of the Company, which is applicable 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 generally accepted accounting principles ("PRC GAAP") and (ii) the net profit determined in accordance with IFRS.

Under 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 reserve, 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 this reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company before the capitalisation.

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

The statutory common reserve fund and discretionary common reserve cannot be used for the purposes other than those for which they are created and are not distributable as cash dividends.

The Company is under statutory requirement to make appropriation to the statutory common reserve based on 10% of its after-tax profit determined under PRC GAAP. The Company has adjusted its PRC GAAP retained earnings as at 31 December 2006 retrospectively upon adoption of new PRC accounting standards which is effective on 1 January 2007. Accordingly, the Company's appropriation to statutory common reserve fund as at 31 December 2006 has been adjusted by RMB10,039,000 to take into account the effect of the adjustment to PRC GAAP retained earnings.

During the year, the directors of the Company approved the appropriation of RMB35,405,000 (2007: RMB23,809,000) to the statutory common reserve fund, which represented 10% of the net profit of the Company for the year ended 31 December 2008, as 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 that are prepared in accordance with PRC GAAP. These profits differ from those dealt with in the financial statements which are prepared in accordance with IFRS.

## 37. BUSINESS COMBINATIONS

On 29 August 2008, the Company entered into an arrangement agreement with Dynex Power, pursuant to which the Company proposed to acquire a 75% equity interest of Dynex Power at the cash consideration of CAD0.55 (RMB equivalent: 3.09) per common share. The aforesaid acquisition was completed on 31 October 2008, whereby the Company acquired a total of 30,146,126 common shares in Dynex Power, representing 75% equity interest of Dynex Power, at a consideration of CAD16,580,000 (RMB equivalent: 93,248,000). The costs directly attributable to the acquisition amounted to RMB14,069,000.

Dynex Power is listed on TSX Venture Exchange. Dynex Power holds a 100% equity interest in Dynex Semiconductor. Upon the completion of the acquisition, Dynex Power and Dynex Semiconductor (collectively the "Dynex Group") became the subsidiaries of the Group.

The fair values of the identifiable assets and liabilities of Dynex Group as at the date of acquisition and the corresponding carrying amounts immediately before the acquisition were as follows:

| | Notes | **Fair value recognised on acquisition RMB'000** | **Previous carrying amount RMB'000** |
|---|---|---|---|
| Property, plant and equipment | 14 | 29,206 | 22,302 |
| Other intangible assets | 17 | 29,364 | — |
| Trade receivables | | 28,652 | 28,652 |
| Prepayments, deposits and other receivables | | 6,988 | 6,988 |
| Inventories | | 50,824 | 50,824 |
| Cash and bank balances | | 7,713 | 7,713 |
| Interest-bearing bank and other borrowings | | (37,386) | (37,386) |
| Trade payables | | (10,526) | (10,526) |
| Other payables and accruals | | (21,466) | (21,466) |
| Deferred tax liabilities | 34 | (10,155) | — |
| Fair value/carrying amount of net assets at date of acquisition | | 73,214 | 47,101 |
| Minority interests | | (18,304) | |
| Goodwill on acquisition | 16 | 52,407 | |
| Satisfied by cash | | 107,317 | |

## 37. BUSINESS COMBINATIONS (continued)

Since its acquisition, Dynex Group contributed RMB35,271,000 to the Group's revenue and RMB2,176,000 to the consolidated profit for the year ended 31 December 2008.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the profit of the Group for the year would have been RMB2,316,601,000 and RMB442,931,000, respectively.

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

| | RMB'000 |
|---|---|
| Cash consideration | (107,317) |
| Cash and bank balances acquired | 7,713 |
| Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries | (99,604) |

## 38. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2008, the Group settled other payable of RMB7,672,000 relating to the acquisition of a 12% equity interest in Zhuzhou Siemens through a set-off against the receivable from CSR Zhuzhou.

## 39. CONTINGENT LIABILITIES

As at 31 December 2008, neither the Group nor the Company had any significant contingent liabilities.

## 40. OPERATING LEASE ARRANGEMENTS

### (i) As lessor

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

As at 31 December 2008, 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 | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within one year | **2,178** | 2,055 | **878** | 1,878 |
| In the second to fifth years, inclusive | **2,412** | 21 | **28** | 21 |
| After five years | — | — | — | — |
| | **4,590** | 2,076 | **906** | 1,899 |

### (ii) As lessee

The Group leases certain of its property, plant and machinery under operating lease arrangements, with leases negotiated for terms ranging from approximately one to ten years.

As at 31 December 2008, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Within one year | **3,386** | 590 | **277** | 575 |
| In the second to fifth years, inclusive | **11,476** | 120 | **60** | 120 |
| After five years | **15,968** | — | **—** | — |
| | **30,830** | 710 | **337** | 695 |

## 41. COMMITMENTS

The Group and the Company had the following capital commitments at the balance sheet date:

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **RMB'000** | RMB'000 | **RMB'000** | RMB'000 |
| Contracted, but not provided for: | | | | |
| Purchase of items of property, plant and equipment | **167,837** | 114,236 | **144,767** | 79,676 |
| Purchase of items of other intangible assets | **113,654** | 142,222 | **113,654** | 142,222 |
| Acquisition of an associate | **—** | 20,000 | **—** | 20,000 |
| Total | **281,491** | 276,458 | **258,421** | 241,898 |
| Authorised, but not contracted for: | | | | |
| Purchase of items of property, plant and equipment | **263,179** | 186,045 | **252,609** | 156,283 |
| Purchase of items of other intangible assets | **4,436** | — | **4,436** | — |
| Capital contribution to a subsidiary | **—** | — | **15,000** | — |
| Total | **267,615** | 186,045 | **272,045** | 156,283 |

## 42. RELATED PARTY TRANSACTIONS

(i) In addition to those disclosed in elsewhere in the financial statements, the Group had the following material transactions with related parties:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Transactions with CSRG and its subsidiaries: | | |
| Sales of goods | **882,786** | 632,428 |
| Purchases of materials and components | **128,553** | 84,596 |
| Sales of property, plant and machinery | **—** | 322 |
| Purchases of property, plant and machinery | **—** | 57,804 |
| Sales of electricity | **574** | 960 |
| Fees paid for usage of property, plant and machinery | **445** | 7,731 |
| Supporting service fee | **—** | 4,300 |
| Rental income from items of property, plant and machinery | **5,241** | 1,867 |
| Transactions with a jointly-controlled entity: | | |
| Sales of goods | **832** | 108 |
| Purchases of materials and components | **147,694** | 97,590 |

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.

## 42. RELATED PARTY TRANSACTIONS (continued)

(ii) Details of the Group's balances with related parties as at the balance sheet date are disclosed in notes 23, 25, 28 and 30 to the financial statements.

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

| | 2008<br>RMB'000 | 2007<br>RMB'000 |
|---|---|---|
| Short-term employee benefits | **2,097** | 2,538 |
| Post-employment benefits | **68** | 60 |
| Total compensation paid to key management personnel | **2,165** | 2,598 |

Further details of directors' and supervisors' remuneration are included in note 8 to the financial statements.

(iv) Other transactions with related parties:

During the year, the Group acquired 17% and 12% equity interests of Zhuzhou Siemens from ZELRI, a holding company of the Company, and CSR Zhuzhou, a fellow subsidiary of ZELRI, at the consideration of RMB10,869,000 and RMB7,672,000, respectively. Further details of the transactions are included in note 20 to the financial statements.

## 43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows:

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2008 | | | | 2007 | | | |
| **Financial assets** | **Financial assets at fair value through profit or loss RMB'000** | **Loans and receivables RMB'000** | **Available-for-sale financial assets RMB'000** | **Total RMB'000** | Financial assets at fair value through profit or loss RMB'000 | Loans and receivables RMB'000 | Available-for-sale financial assets RMB'000 | Total RMB'000 |
| Available-for-sale investments | **–** | **–** | **400** | **400** | — | — | 400 | 400 |
| Financial assets at fair value through profit or loss | **100,000** | **–** | **–** | **100,000** | — | — | — | — |
| Trade receivables | **–** | **711,544** | **–** | **711,544** | — | 501,680 | — | 501,680 |
| Bills receivable | **–** | **327,937** | **–** | **327,937** | — | 258,200 | — | 258,200 |
| Financial assets included in prepayments, deposits and other receivables | **–** | **334,718** | **–** | **334,718** | — | 112,725 | — | 112,725 |
| Pledged deposits | **–** | **3,362** | **–** | **3,362** | — | 7 | — | 7 |
| Cash and cash equivalents | **–** | **796,722** | **–** | **796,722** | — | 1,510,603 | — | 1,510,603 |
| | **100,000** | **2,174,283** | **400** | **2,274,683** | — | 2,383,215 | 400 | 2,383,615 |

| | The Group | |
|---|---|---|
| **Financial liabilities** | **2008 Financial liabilities at amortised cost RMB'000** | 2007 Financial liabilities at amortised cost RMB'000 |
| Interest-bearing bank and other borrowings | **24,439** | — |
| Trade payables | **370,358** | 221,680 |
| Bills payable | **46,234** | 48,172 |
| Financial liabilities included in other payables and accruals | **57,037** | 47,389 |
| | **498,068** | 317,241 |

## 43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the balance sheet date are as follows: (continued)

| | The Company | | | | | |
|---|---|---|---|---|---|---|
| | **2008** | | | 2007 | | |
| | **Loans and receivables RMB'000** | **Financial assets at fair value through profit or loss RMB'000** | **Total RMB'000** | Loans and receivables RMB'000 | Financial assets at fair value through profit or loss RMB'000 | Total RMB'000 |
| **Financial assets** | | | | | | |
| Loan to a subsidiary | **17,635** | **–** | **17,635** | — | — | — |
| Financial assets at fair value through profit or loss | **–** | **100,000** | **100,000** | — | — | — |
| Trade receivables | **561,832** | **–** | **561,832** | 421,588 | — | 421,588 |
| Bills receivable | **299,587** | **–** | **299,587** | 209,270 | — | 209,270 |
| Financial assets included in prepayments, deposits and other receivables | **419,216** | **–** | **419,216** | 172,174 | — | 172,174 |
| Pledged deposits | **–** | **–** | **–** | 7 | — | 7 |
| Cash and cash equivalents | **659,263** | **–** | **659,263** | 1,426,711 | — | 1,426,711 |
| | **1,957,533** | **100,000** | **2,057,533** | 2,229,750 | — | 2,229,750 |

| | The Company | |
|---|---|---|
| | **2008 Financial liabilities at amortised cost RMB'000** | 2007 Financial liabilities at amortised cost RMB'000 |
| **Financial liabilities** | | |
| Trade payables | **396,359** | 272,170 |
| Bills payable | **48,294** | 48,172 |
| Financial liabilities included in other payables and accruals | **28,323** | 45,649 |
| | **472,976** | 365,991 |

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments, other than derivatives, comprise bank loans, other interest-bearing loans, and cash and short term deposits. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below. The Group's accounting policies in relation to derivatives are set out in note 2.4 to the financial statements.

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's short term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates of borrowings, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings). There is no material impact on the Group's equity.

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax | |
|---|---|---|---|
| | | **2008** | 2007 |
| | | **RMB'000** | RMB'000 |
| Interest rates | 100 | **(98)** | — |
| Interest rates | (100) | **98** | — |

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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 mainly the United States dollar and Hong Kong dollar. Fluctuation of exchange rates of RMB against foreign currencies can affect the Group's results of operations.

The Group takes rolling forecast on foreign currency revenue and expenses as well as matches the currency and amount incurred so as to alleviate the impact to business due to exchange rate fluctuation. In addition, the Group tries to use derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. It is the Group's policy not to enter into forward contracts until a firm commitment is in place.

The following table demonstrates the sensitivity at the balance sheet date to a reasonably possible change in the United States dollar and Hong Kong dollar exchange rates, with all other variables held constant, of the Group's profit before tax (due to change in the fair value of monetary assets and liabilities).

| | Increase/ (decrease) | Increase/(decrease) in profit before tax | |
|---|---|---|---|
| | % | **2008** | 2007 |
| | | **RMB'000** | RMB'000 |
| United States dollar | | | |
| If RMB strengthens against United States dollar | 5 | **(1,929)** | (1,087) |
| If RMB weakens against United States dollar | (5) | **1,929** | 1,087 |
| Hong Kong dollar | | | |
| If RMB strengthens against Hong Kong dollar | 5 | **(1,449)** | (486) |
| If RMB weakens against Hong Kong dollar | (5) | **1,449** | 486 |

### Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, financial assets at fair value through profit or loss and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. There are no significant concentrations of credit risk within the Group as the customer bases of the Group's trade receivables are widely dispersed.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purpose.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contractual undiscounted payments, was as follows:

### The Group

| | 2008 | | | | |
|---|---|---|---|---|---|
| | **Within one year or on demand RMB'000** | **In the second year RMB'000** | **In the third to fifth years RMB'000** | **Beyond five years RMB'000** | **Total RMB'000** |
| Interest-bearing bank and other borrowings | **20,703** | **769** | **2,300** | **667** | **24,439** |
| Trade payables | **370,358** | **—** | **—** | **—** | **370,358** |
| Bills payable | **46,234** | **—** | **—** | **—** | **46,234** |
| Other payables | **57,037** | **—** | **—** | **—** | **57,037** |
| | **494,332** | **769** | **2,300** | **667** | **498,068** |

| | 2007 | | | | |
|---|---|---|---|---|---|
| | Within one year or on demand RMB'000 | In the second year RMB'000 | In the third to fifth years RMB'000 | Beyond five years RMB'000 | Total RMB'000 |
| Interest-bearing bank and other borrowings | — | — | — | — | — |
| Trade payables | 221,680 | — | — | — | 221,680 |
| Bills payable | 48,172 | — | — | — | 48,172 |
| Other payables | 47,389 | — | — | — | 47,389 |
| | 317,241 | — | — | — | 317,241 |

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk (continued)

### The Company

| | 2008<br>Within one year or on demand<br>RMB'000 | In the second year<br>RMB'000 | In the third to fifth years<br>RMB'000 | Beyond five years<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| Trade payables | 396,359 | — | — | — | 396,359 |
| Bills payable | 48,294 | — | — | — | 48,294 |
| Other payables | 28,323 | — | — | — | 28,323 |
| | 472,976 | — | — | — | 472,976 |

| | 2007<br>Within one year or on demand<br>RMB'000 | In the second year<br>RMB'000 | In the third to fifth years<br>RMB'000 | Beyond five years<br>RMB'000 | Total<br>RMB'000 |
|---|---|---|---|---|---|
| Trade payables | 272,170 | — | — | — | 272,170 |
| Bills payable | 48,172 | — | — | — | 48,172 |
| Other payables | 45,649 | — | — | — | 45,649 |
| | 365,991 | — | — | — | 365,991 |

### Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2008 and 31 December 2007.

## 44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by total capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents. Capital includes equity attributable to the equity holders of the parent. The gearing ratios as at the balance sheet dates were as follows:

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **RMB'000** | RMB'000 |
| Interest-bearing bank and other borrowings | **24,439** | — |
| Trade payables | **370,358** | 221,680 |
| Bills payable | **46,234** | 48,172 |
| Other payables and accruals | **193,927** | 149,155 |
| Less: Cash and cash equivalents | **(796,722)** | (1,510,603) |
| Net assets | **(161,764)** | (1,091,596) |
| Equity attributable to equity holders | **3,409,121** | 3,157,193 |
| Capital and net assets | **3,247,357** | 2,065,597 |
| Gearing ratio | **(5%)** | (53%) |

## 45. POST BALANCE SHEET EVENTS

On 25 March 2009, the Company entered into a joint venture agreement with China Railway Group Limited and China Railway Bus Co., Ltd. ("China Railway Bus"), for the establishment of BaoJi CSR Times Engineering Machinery Co. Ltd. as a joint venture company (the "JV Company") in the PRC. The JV Company will be engaged in the manufacture and sale of railway and urban rail work machines and vehicles.

The JV Company is established in the form of a limited liability company in the PRC with a registered capital of RMB100,000,000, among which the Company shall contribute RMB60,000,000 by way of cash and China Railway Bus shall contribute RMB40,000,000 partly by way of cash and partly by way of injection of assets. Upon its establishment, the JV Company is held as to 60% by the Company and 40% by China Railway Bus.

## 46. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2009.

# Glossary

| | |
|---|---|
| "Articles" | the Articles of Association of the Company |
| "Baoji CSR Times" | 寶雞南車時代工程機械有限公司 (Baoji CSR Times Engineering Machinery Co. Ltd.), held as to 60% by the Company |
| "Board" or "Board of Directors" | the board of Directors of the Company |
| "Beijing Tianyu" | 北京天宇華星航空科技有限公司 (Beijing Tianyu Huaxing Aviation Technology Co., Ltd.), held as to 60% by ZELRI indirectly |
| "CG Code" | the Code on Corporate Governance Practices |
| "Company" | 株洲南車時代電氣股份有限公司 (Zhuzhou CSR Times Electric Co., Ltd.) |
| "CSR" | 中國南車股份有限公司 (China South Locomotive & Rolling Stock Corporation Limited), a joint stock limited liability company incorporated in the PRC whose A shares and H shares are listed on Shanghai Stock Exchange and the main board of Hong Kong Stock Exchange, respectively. CSR is directly and indirectly owned as to 57.57% by CSRG and holds the entire equity interest in the Parent Company |
| "CSRG" | 中國南方機車車輛工業集團公司 (China South Locomotive & Rolling Stock Industry (Group) Corporation), a PRC State-owned enterprise |
| "CSRG Group" | CSRG and its subsidiaries, excluding the Parent Group |
| "CSR Investment & Leasing" | 南車投資租賃有限公司 (CSR Investment & Leasing Co., Ltd.) was formerly known as New Leap Transportation Equipment Investment & Leasing Co., Ltd., a wholly-owned subsidiary of CSR, and one of the Promoters of the Company |
| "CSR Sifang Co., Ltd." | 南車青島四方機車車輛股份有限公司 (CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.), (formerly known as 南車四方機車車輛股份有限公司 (CS RSifang Locomotive & Rolling Stock Co., Ltd)), held as to 93.55% by CSR |

| | |
|---|---|
| "CSR Zhuzhou" | 南車株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Co., Ltd.), held as to 69.01% by CSR, as to 16.31% by the Parent Company, as to 13.05% by CSR Investment & Leasing; one of the Promoters of the Company |
| "Directors" | the directors of the Company |
| "Dynex" | Dynex Power Inc., a joint stock company listed on the TSX Venture Exchange, Toronto, Canada (stock code: dynex) whose 75% equity interest was acquired by the Company in October 2008. Dynex Semiconductor Ltd. is its only operating subsidiary and its headquarters is located in Lincoln, England |
| "Group" | the Company and its subsidiaries |
| "Kunming China Railway" | 昆明中鐵大型養路機械集團有限公司 (China Railway Large Maintenance Machinery Co., Ltd. Kunming), one of the Promoters of the Company, is a subsidiary wholly owned by 中國鐵建股份有限公司 (China Railway Construction Corporation Limited), whose A shares and H shares are listed on Shanghai Stock Exchange and the main board of Hong Kong Stock Exchange, respectively |
| "Kunming China Railway Group" | Kunming China Railway and its subsidiaries |
| "Listing Rules" | The Rules Governing the Listing of Securities on the Stock Exchange |
| "NERCC" | 株洲變流技術國家工程研究中心有限公司 (Zhuzhou National Engineering Research Centre of Converters Co., Ltd.), a wholly-owned subsidiary of ZELRI |
| "Ningbo Company" | 寧波南車時代傳感技術有限公司 (Ningbo CSR Times Sensor Technology Company, Ltd.), a wholly-owned subsidiary of the Company |
| "Parent Company" or "ZELRI" | 南車株洲電力機車研究所有限公司 (CSR Zhuzhou Electric Locomotive Research Institute Co,. Ltd.), a wholly-owned subsidiary of CSR, one of the Promoters and also the controlling shareholder of the Company |
| "Parent Group" | the Parent Company and its subsidiaries (excluding the Group) |

| | |
|---|---|
| "PRC" | the People's Republic of China |
| "Promoters" | Promoters of the Company, being ZELRI, CSR Zhuzhou, CSR Investment & Leasing, Qishuyan Works and Kunming China Railway |
| "Qishuyan Works" | 中國南車集團戚墅堰機車車輛廠 (CSR Qishuyuan Locomotive & Rolling Stock Works), a wholly-owned subsidiary of CSRG and one of the Promoters of the Company |
| "Shenyang Company" | 沈陽南車時代交通設備有限公司 (Shenyang CSR Times Transportation Equipment Co., Ltd.), a wholly-owned subsidiary of the Company |
| "Shiling" | 株洲時菱交通設備有限公司 (Zhuzhou Shiling Transportation Equipment Company, Ltd.), held as to 50% by the Company, as to 40% by Mitsubishi Electric Corporation and as to 10% by Mitsubishi Electric (China) Ltd. |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Supervisory Committee" | the supervisory committee of the Company |
| "the year" or "the reporting period" | For the year ended 31 December 2008 |
| "Times Electric Vehicle" | 湖南南車時代電動汽車股份有限公司 (Hunan CSR Times Electric Vehicle Co., Ltd.), held as to 63.6% by ZELRI. |
| "Times Electronics" | 株洲時代電子技術有限公司 (Zhuzhou Times Electronics Technology Co., Ltd.), a wholly-owned subsidiary of the Company |
| "Times Equipment" | 株洲時代裝備技術有限公司 (Zhuzhou Times Equipment Technology Co., Ltd.), a wholly-owned subsidiary of the Company |
| "Times Guangchuang" | 株洲時代廣創變流技術有限公司 (Zhuzhou Times Guangchuang Converter Technology Co., Ltd.), a wholly-owned subsidiary of Times Electronics. Its 15% interest was acquired by Times Electronics in August 2008. Prior to the acquisition, it was owned as to 85% by Times Electronics |
| "Times Information" | 北京南車時代信息技術有限公司 (Beijing CSR Times Information Technology Co., Ltd.), a wholly-owned subsidiary of the Company |

| | |
|---|---|
| "Times New Materials" | 株洲時代新材料科技股份有限公司 (Zhuzhou Times New Materials Technology Co., Ltd.), whose shares are listed on the Shanghai Stock Exchange |
| "Times Zhuoyue" | 株洲時代卓越汽車電子技術有限公司 (Zhuzhou Times Zhuoyue Automotive Electronics Technology Co., Ltd.), Times Electronics held 40% of its shareholding. Besides, Times Electronics entered into an agreement with two natural investors who held an aggregate of 15% equity interest in Times Zhuoyue, and the two natural investors conferred their voting rights in Time Zhuoyue to Times Electronics. pursuant to which Times Zhouyue is a subsidiary of Times Electronics |
| "Zhuzhou Siemens" | Siemens Traction Equipment Ltd., Zhuzhou, held as to 30% by the Company, as to 20% by CSR Zhuzhou and as to 50% by Siemens Ltd., China |

# Basic Corporate Information

| | | |
|---|---|---|
| 1 | Name in Chinese | 株洲南車時代電氣股份有限公司 |
| | Name in English | Zhuzhou CSR Times Electric Co., Ltd |
| 2 | Authorized representatives | Liao Bin<br>Tang Tuong Hock, Gabriel |
| 3 | Joint company secretaries | Lu Penghu<br>Tang Tuong Hock, Gabriel |
| | Qualified accountant | Tang Tuong Hock, Gabriel |
| | Registered office | Times Road, Shifeng District, Zhuzhou,<br>Hunan Province, PRC, 412001 |
| | Telephone | +86 733 849 8028 |
| | Fax | +86 733 849 3447 |
| | Website | http://www.timeselectric.cn |
| | Principal place of business in Hong Kong | Unit 1106, 11th Floor, Jubilee Centre,<br>18 Fenwick Street, Wanchai, Hong Kong |
| 4 | Listing information | H Share<br>The Stock Exchange of Hong Kong Limited<br>Stock Code : 3898<br>Short Name of Stock : CSR Times Electric |
| 5 | H share registrar | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716, 17/F., Hopewell Centre<br>183 Queen's Road East<br>Wanchai<br>Hong Kong |
| 6 | Legal advisers | Jones Day<br>Grandall Legal Group |
| 7 | Auditors | Ernst & Young<br>18th Floor, Two International Finance Centre,<br>8 Finance Street, Central, Hong Kong |