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)

2009

Annual Report

Contents

Financial Highlights

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME HIGHLIGHTS

Year Ended 31 December

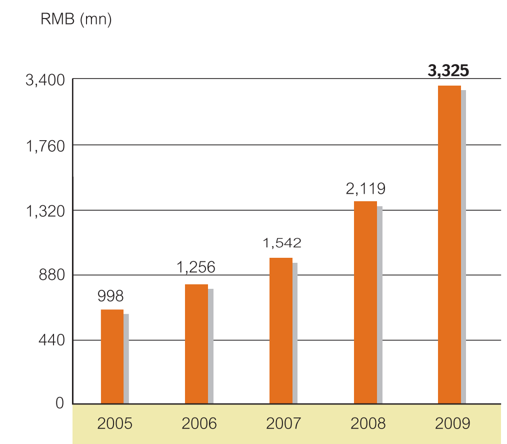
	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Revenue	**3,325,593**	2,119,323	1,541,804	1,255,926	997,976
Profit from operations	**616,568**	489,766	332,579	317,013	232,375
Profit before tax	**624,225**	496,842	344,911	302,581	218,556
Profit for the year	**534,389**	423,337	347,477	302,268	217,917
Minority Interests	**3,508**	1,037	88	5,497	6,184
Profit attributable to owners of the parent	**530,881**	422,300	347,389	296,771	211,733
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	**RMB0.49**	RMB0.39	RMB0.32	RMB0.44	RMB0.33

CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

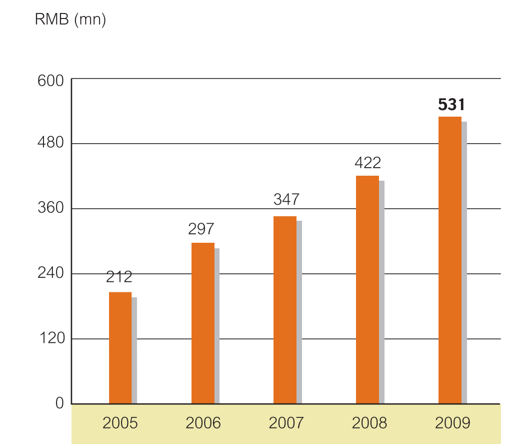
As at 31 December

	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000	2005 RMB'000
Total assets	**5,400,711**	4,169,122	3,644,903	3,788,256	1,481,397
Total liabilities	**1,522,092**	741,453	483,453	940,246	825,190
Net assets	**3,878,619**	3,427,669	3,161,450	2,848,010	656,207

2005-2009 Growth in revenue



2005-2009 Growth in net profit



Chairman's Report

Ding Rongjun
Chairman

Dear Shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31 December 2009. 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 2009 was RMB3,325.6 million (2008: RMB2,119.3 million), an increase of 56.9% from the previous year. Profit attributable to owners of the parent was RMB530.9 million (2008: RMB422.3 million). Basic earnings per share was RMB0.49 (2008: RMB0.39), representing an increase of 25.7% year-on-year.

Business Review

In 2009, while the global economy recovered slowly from the financial crisis, the manufacturing industry of railway locomotives and rolling stocks in China experienced an important turnaround and development opportunity. During the year, the Company achieved remarkable business results and significant business progress was made in the following areas:

Chairman's Report

Under the active guidance of introduction, digestion, absorption and further innovation policies of the Ministry of Railways and the leadership of CSR, the Company utilised its scientific research and manufacturing advantages during 2009, and has jointly developed the 7200 kW high-powered electric locomotives with wholly self-owned intellectual property rights with the CSR manufacturing units. In less than ten months from project commencement at the beginning of the year to layout designs, test production and bulk delivery of products, the project had satisfied the requirements of the Ministry of Railways and all railway bureau users completely, creating a miracle in the history of the Company's scientific research and test production of large projects, which further strengthened our industry position and resulted in significant growth in our annual results.

The Wuhan-Guangzhou high-speed railway was completed and commenced operation at the end of 2009, signifying the arrival of a new age of high-speed railway passenger transport. The Wuhan-Guangzhou high-speed railway is a line for passenger transport with the longest length, highest standard in technology and largest scale of investment among all the existing completed railways in China. It is 1,068.6 km in full length with a designed speed of 350 km per hour. After its operation, the travelling time between Wuhan and Guangzhou has been reduced from 11 hours formerly to 3 hours currently. The first batch of 22 trains of the Harmony CRH2 model high-speed train manufactured by CSR formally commenced operation on the Wuhan-Guangzhou high-speed railway. The Company provided key technology and core components as the traction electric drive system and network control system for these high-speed trains with excellent energy-saving and environmental protection performance.

The Company formed a joint venture company, Baoji Times, with China Railway Bus in March 2009 and entered into the manufacturing business of the whole vehicles of the medium and small size railway engineering machinery. In 2009, the Company succeeded in winning bids in the tenders for Beijing Metro Changping Line, No. 8 Line and Fangshan Line and Chongqing Metro No. 6 Line, and began batch supply of products for the Shenyang Metro No. 2 Line project. The expansion and renovation project of Shanghai Metro No. 1 Line was completed smoothly, and the Company's metro traction system with wholly self-owned intellectual property rights started to receive general acceptance among domestic railway owners.

The 6-inch thyristor inverter valve researched and manufactured by the Company was successfully applied to the State Grid Lingbao Project (靈寶項目). No.3 semiconductor line commenced operation, securing our leading positions in technology and scale in the domestic industry, and better facilitating the provision of high-end electricity semiconductor products for the power and railway markets. During the construction process of No.3 semiconductor line, much attention was attracted from State and local government officials who made a number of site visits to our plants. Share placement by Dynex was also completed during the year for financing the expansion and renovation of the IGBT chips.

In 2009, the management standard of the Company was further enhanced to a new level through information technology measures.

Outlook

In 2010, the PRC government's policies of increasing domestic demand and investments to stimulate economic growth will continue. Increased efforts in the construction of railways in China will remain an important measure for initiating domestic demand and stimulating the economy.

Better market opportunities will continue to be available for 7200 kW high-powered locomotive products in 2010. It is expected that the Company will deliver electrical control system products for several hundreds of 7200 kW high-powered locomotives to CSR in 2010, contributing as one of the major driving forces of significant growth of the annual results for the coming year.

CSR secured a new generation 350 km/h high-speed train project from the Ministry of Railways in 2009, the Company will supply key electrical equipment such as traction converters, auxiliary converters and train information systems. A sales contract was signed with CSR Sifang Co., Ltd on 14 April 2010 under which the contract amount reached RMB5.145 billion.

For other business segments of the Company, fast growth will be expected in the electric systems for Metro vehicles, large size railway maintenance machinery and medium and small size railway machinery related products. Train operation safety equipment will see rebounding growth. Increased efforts will be exerted in the marketing and application of high-powered semiconductor devices.

In the new business segments, the Company intends to focus on expanding the technology for converter systems to the area of industrial converters, creating a wide range of converter products with various power ratings to satisfy the future needs from the emerging markets such as metallurgy and chemicals, oil drilling and exploration, and photovoltaic power grid connection.

The Company joined the UN Global Compact at the end of 2009 and publicly declared its desire to actively take up social responsibilities. The first report on social responsibilities will be published shortly.

Looking ahead, the Group is confident in seizing the opportunity to accelerate development, and actively create greater value for the shareholders and share with them the results of the rapid development of the Company.

Ding Rongjun
Chairman of the Board
Changsha, Hunan, PRC
17 April 2010

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

	2009 (RMB million)	2008 (RMB million)
Train power converters, auxiliary power supply equipment and control systems	**1,891.0**	1,109.7
Including:		
Locomotives	**1,024.4**	347.7
Electric Multiple units	**711.4**	632.2
Metropolitan rail transportation equipment	**155.2**	129.8
Train operation safety equipment	**233.0**	241.3
Railway maintenance vehicles related products	**483.4**	293.8
Train-borne electrical systems	**2,607.4**	1,644.8
Power semiconductor components	**452.4**	217.2
Sensors and related products	**71.8**	80.9
Other products	**194.0**	176.4
Electric components	**718.2**	474.5
Total revenue	**3,325.6**	2,119.3

Revenue increased by RMB1,206.3 million or 56.9% from RMB2,119.3 million for the year ended 31 December 2008 to RMB3,325.6 million for the year ended 31 December 2009.

Except for the decrease in revenue from train operation safety equipment and sensors and related products, fast growth was seen in revenue from other product categories of the Group in 2009. The Group recorded the strongest growth of RMB781.3 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 7,200kW high-powered locomotives. The second strongest growth of RMB235.2 million was recorded in power semiconductor devices and modules, mainly due to the further expansion into the high-voltage equipment market such as power system by the Company in 2009 and the revenue of RMB226.2 million contributed by Dynex. The third strongest growth of RMB189.6 million was recorded in railway maintenance vehicles related products, mainly due to the increase in the purchase of electrical control systems made in China for large railway maintenance vehicles with its own intellectual property right by the Ministry of Railways and the revenue of RMB100.4 million contributed by the newly established Baoji Times.

Cost of sales

Cost of sales increased by 59.0% to RMB2,118.3 million for the year ended 31 December 2009 from RMB1,332.1 million for the year ended 31 December 2008. The increase in cost of sales was mainly due to the growth in the Group's revenue by RMB1,206.3 million.

Gross profit

Based on the above factors, the Group's gross profit increased by 53.4% to RMB1,207.3 million for the year ended 31 December 2009 from RMB787.2 million for the year ended 31 December 2008. The Group's gross profit margin decreased from 37.1% for the year ended 31 December 2008 to 36.3% for the year ended 31 December 2009. The decrease in gross profit margin was mainly due to change in product mix of the Company. Due to the gradual opening of the railway industry in China and the increasingly fierce competition as well as the expansion of the Company scale, more and more products fall into other categories beyond railway sectors, the management of the Group is of the view that the Company's gross profit margin still faces the possibility of a continuous fall in the future.

Other income and gains

Other income and gains of the Group decreased by 25.7% to RMB88.7 million for the year ended 31 December 2009 from RMB119.4 million for the year ended 31 December 2008. The decrease in other income and gains was mainly due to the decrease in investment income from financial instruments.

Selling and distribution costs

Selling and distribution costs of the Group increased by 59.5% to RMB203.4 million (representing 6.1% of the Group's revenue for the whole year) for the year ended 31 December 2009 from RMB127.5 million (representing 6.0% of the Group revenue for the whole year) for the year ended 31 December 2008. The selling and distribution costs increased as the Group increased its business operations and increased the percentage of provision for warranties made for the 7200kW locomotive projects.

Administration expenses

The Group's administration expenses increased by 63.0% to RMB463.6 million for the year ended 31 December 2009 (representing 13.9% of the annual revenue of the Group) from RMB284.4 million for the year ended 31 December 2008 (representing 13.4% of the annual revenue of the Group). The increase in administration expenses is due to the increase in business operation and in research and development costs of the Group in 2009.

Profit from operations

The Group's profit from operations increased by 25.9% to RMB616.6 million for the year ended 31 December 2009 from RMB489.8 million for the year ended 31 December 2008, which was mainly due to increase in revenue. The Group's operating profit margins for the years ended 31 December 2008 and 2009 were 23.1% and 18.5%, respectively.

Finance costs

Finance costs increased by 700.0% to RMB8.0 million for the year ended 31 December 2009 from RMB1.0 million for the year ended 31 December 2008. The increase in finance costs was mainly due to the fact that interest expenses for 2009 increased as compared with 2008. Finance costs mainly comprised of interests to the loans of Dynex.

Profit before tax

Based on the above factors, the Group's profit before tax increased by 25.6% to RMB624.2 million for the year ended 31 December 2009 from RMB496.8 million for the year ended 31 December 2008.

Income tax expenses

The Group's income tax expenses increased by 22.2% from RMB73.5 million for the year ended 31 December 2008 to RMB89.8million for the year ended 31 December 2009. The Group's income tax expenses comprised current income tax of RMB96.8 million and deferred tax credit of RMB7.0 million.

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

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

Baoji Times benefited from the tax reduction policy under the Western Development initiative of the PRC and was subject to corporate income tax rate of 15%.

The Group's deferred tax credit of RMB7.0 million, which was recognised in the profit or loss of the year, was mainly arising from the temporary differences upon the recognition of provision for warranties calculated in accordance with the applicable tax rates during different periods.

The effective tax rates of the Group for the years ended 31 December 2008 and 2009 were 14.9% and 14.4%, respectively.

Net profit attributable to owners of the parent

The Group's net profit attributable to owners of the parent increased by 25.7% from RMB422.3 million for the year ended 31 December 2008 to RMB530.9 million for the year ended 31 December 2009. The Group's net profit margins for the years ended 31 December 2008 and 2009 were 20.0% and 16.0%, respectively.

Profit attributable to minority interests

Profit attributable to minority interests increased from RMB1.0 million for the year ended 31 December 2008 to RMB3.5 million for the year ended 31 December 2009. The increase was mainly due to the Group's recognition of the profit attributable to minority interests of Dynex for the twelve months ended 31 December 2009.

Earnings per share

Earnings per share increased RMB0.10 from RMB0.39 for the year ended 31 December 2008 to RMB0.49 for the year ended 31 December 2009.

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. Cash and cash equivalents of the Group increased by RMB311.7 million in 2009 mainly due to the strengthened management of funds recovery by the Group and the increase in net cash flows from operating activities.

Net cash flows from operating activities

The Group's net cash flows from operating activities increased from RMB255.4 million for the year ended 31 December 2008 to RMB 452.4 million for the year ended 31 December 2009, mainly due to the strengthened management of funds recovery by the Group.

Net cash flows used in investing activities

For the year ended 31 December 2009, the Group's net cash flows used in investing activities was approximately RMB103.5 million. Cash flows used in investing activities represents mainly the payment for the acquisition of property, plant and equipment of RMB436.0 million. Cash flows from investing activities represents mainly the recovery of funds from bank financial products of RMB400.0 million.

Net cash flows used in financing activities

For the year ended 31 December 2009, the Group's net cash flows used in financing activities amounted to RMB37.2 million. Cash flows used in financing activities mainly represents payment of dividends of RMB168.3 million and the repayment of borrowings of RMB25.2 million. Cash flows from financing activities mainly represents capital contributions from minority shareholders of RMB43.7 million and new borrowings of RMB120.7 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	
	2009 (RMB million)	2008 (RMB million)
Contracted but not provided:		
Purchase of items of property, plant and equipment	**234.7**	167.8
Purchase of items of other intangible assets	**106.5**	113.7
Total	**341.2**	281.5

Indebtedness

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

	As at 31 December	
	2009 (RMB million)	2008 (RMB million)
Interest-bearing bank and other borrowings	**124.1**	24.4

Gearing ratio

The Group monitors capital using the gearing ratio, which is net debt divided by 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 represents equity attributable to owners of the parent. The Group's gearing ratio was -5% as at 31 December 2008 and 5% as at 31 December 2009. The change in the gearing ratio was mainly attributed to the change in the net debt of the Group from RMB-161.8 million for the year ended 31 December 2008 to RMB189.0 million for the year ended 31 December 2009.

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 49, 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 CSR ZELRI from 1999 to 2000, and the positions of deputy director, deputy chief engineer and chief engineer of CSR ZELRI between 2000 and 2005. Mr. Ding graduated from Southwest Jiaotong University with a bachelor degree in Electric Locomotive in 1984 and from Changsha Railway Institute with a master degree in Traffic Information and Control in 1998. He later graduated from Hunan University with a master degree in Management Science and Engineering in 1999 and later graduated from Central South University with a doctor degree in Intelligent Control and Pattern Recognition in 2008. Mr. Ding served as the president of the Company from September 2005 to December 2007, and then joined CSR ZELRI as the secretary of the Party and deputy director in December 2007. He had been the secretary of the Party and vice general manager of CSR ZELRI from January 2008 to December 2008, general manager and vice secretary of the Party of CSR ZELRI from December 2008 to July 2009. He has been an executive director, general manager and vice secretary of the Party of CSR ZELRI since July 2009. Mr. Ding has been 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 since December 2007.

Deng Huijin, aged 53, the Vice Chairman of the Board and a non-executive Director. Mr. Deng joined CSR ZELRI in 1982 and has held various positions as assistant engineer, engineer and senior engineer. He served as deputy director of CSR ZELRI from November 1995 to December 2005, deputy Party secretary, secretary of Party discipline inspection commission and chairman of the labour union of CSR ZELRI from December 2005 to November 2008, and has been Party secretary and deputy general manager of CSR ZELRI and a director of Times New Materials since December 2008. Mr. Deng graduated from Dalian Railway Institute with a bachelor degree in Engineering in 1982. Mr. Deng was appointed as a non-executive Director of the Company in August 2009 and has been the Vice Chairman of the Board since April 2010.

Li Donglin, aged 43, an executive Director and the general manager of the Company. Mr. Li joined CSR ZELRI in July 1989 and had 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 CSR ZELRI. Mr. Li graduated from Southwest Jiaotong University with a bachelor degree in Electric Traction and Drive Control in 1989. Mr. Li had served as the chief marketing officer from September 2005 to December 2007. He was the vice president and secretary of the Party of the Company from December 2007 to December 2009, and has been the general manager of the Company since January 2010. Mr. Li was appointed as an executive Director of the Company in April 2010.

Directors, Supervisors and Senior Management

Lu Penghu, aged 44, a non-executive Director and joint company secretary. Mr. Lu is a current director of Time Electronics, Ningbo Company, Times Equipment, Shenyang Company, Baoji Times and Dynex. 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 CSR ZELRI. Mr. Lu has been deputy general manager of CSR ZELRI since January 2010. 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 2007 to December 2007, the president of the Company from December 2007 to January 2010. Mr. Lu served as an executive Director of the Company from November 2006 to April 2010, and has been redesignated as a non-executive Director of the Company since April 2010.

Ma Yunkun, aged 56, a non-executive Director. Mr. Ma has more than 10 years of experience in business management and was the chairman of the board of directors and general manager of Kunming China Railway from 2004 to December 2009 and has been the chairman of the board and secretary to the Party committee of Kunming China Railway from January 2010. 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 69, 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 52, 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. Chen was elected as a council member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") since 2007 and is actively involved in the work and matters of the technical and industry monitoring committees of HKICPA. Since January 2010, Mr. Chen has been appointed as the chairman of the Financial Reporting Standards Committee of the HKICPA and is responsible for the research, editing and promulgation of the Hong Kong Financial Reporting Standards. Mr. Chen is also the vice-chairman of the Registration and Practicing Committee of the HKICPA. Mr. Chen obtained a bachelor degree in Accounting and a master degree in Commerce from the United Kingdom and Australia, respectively. Mr. Chen has been an independent non-executive Director of the Company since September 2005.

Directors, Supervisors and Senior Management

Pao Ping Wing, aged 62, 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, Hembly International Holdings Limited, and Soundwill 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 46, an independent non-executive Director. Mr. Tan was the director of Jiaoyang Law firm from 1996 to 2002 and had been the deputy chairman of the board of directors, director and general manager of Hunan Taizinai Group Bio-tech Company. Mr. Tan is chief counsel of the Hunan Tan Xiao'ao Law firm and has been a part-time professor at the law faculty of the Central South University since 2003. Mr. Tan attended Zhongshan University, Tsinghua University, China University of Political Science and Law and Princeton University and obtained his bachelor of laws, master of business administration and master of laws degrees. Mr. Tan has been an independent non-executive Director of the Company since June 2006.

Liu Chunru, aged 39, 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 had been a deputy general manager of Zhongfa International Appraisal Co., Ltd. from 2003 to March 2008. She has been general manager of Zhongfa International Appraisal Co., Ltd. since March 2008. Ms. Liu graduated from Chongqing University with a bachelor degree in Engineering in 1994 and graduated from Tsinghua University with a 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.

Song Yali, aged 57, the former Vice Chairman of the Board and a former non-executive Director. Mr. Song is a senior economist. He joined CSR 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 was chairman of the board of directors of Times New Materials from April 2005 to March 2008. Mr. Song was the deputy director of CSR ZELRI from November 2005 to January 2008. He had been a vice general manager of CSR ZELRI from January 2008 to December 2009 and has been an advisor to the general manager of CSR ZELRI since January 2010. Mr. Song graduated from the Party School of the Central Committee majoring in Economic Management in 1998. Mr. Song served as the Vice Chairman of the Board and a non-executive Director of the Company from December 2007 to April 2010.

Liao Bin, aged 47, a former non-executive Director. Mr. Liao joined CSR ZELRI in August 1983 and had held the positions of general manager of Zhuzhou Times Rubber & Plastics Co. Ltd. from 1998 to 2000, director of Times New Materials from 2000 to July 2009, deputy director of CSR ZELRI and general manager of Times New Materials from 2000 to 2001, deputy director of CSR ZELRI and chairman of the board of directors of Times New Materials from 2001 to 2004, director of CSR ZELRI from 2004 to January 2008, executive director of CSR ZELRI from January 2008 to July 2009, and general manager and deputy secretary of Party Committee from January 2008 to December 2008. Mr. Liao graduated from South China University of Science and Engineering with a bachelor's degree in 1983 and finished his master's degree in business administration at the Institute of Commerce of Hunan University in 1996. Mr. Liao served as the Chairman of the Board from September 2005 to December 2007, an executive Director of the Company from September 2005 to November 2006, and a non-executive Director of the Company from November 2006 to August 2009.

Supervisors

Zhang Liqiang, aged 47, a supervisor and the chairman of the Supervisory Committee. Mr. Zhang is a senior accountant, and has been the deputy general manager and the chief financial officer of CSR Qishuyan Locomotive & Rolling Stock Co., Ltd. since September 2009. Mr. Zhang was the chief accountant of CSR ZELRI from May 2005 to January 2008, and a vice general manager and chief financial officer of CSR ZELRI from January 2008 to September 2009. 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 has been a supervisor of the Company since September 2005. Mr. Zhang has resigned from the position as a supervisor and the chairman of the Supervisory Committee in April 2010 with effect from the conclusion of the 2009 annual general meeting.

Pang Yiming, aged 46, a supervisor. Mr. Pang is the director of the operation 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 CSR 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 Zhuzhou Times Guangchuang Converter Technology Co., Ltd. from September 2005 to August 2008. Mr. Pang served as the director of the marketing management department of the Company from January to December 2009, and has been the director of the operation management department of the Company since Janurary 2010. Mr. Pang graduated from Central South University in 2004 after a three-year study in management and engineering. Mr. Pang was appointed as an employees' representative supervisor of the Company in September 2005.

Directors, Supervisors and Senior Management

Zhou Guifa, aged 45, a supervisor. Mr. Zhou is a professor ranked senior engineer. He joined the Parent Group in 1985 and has held various positions as engineer, senior engineer and senior engineer (professor rank) at the R&D centre of CSR ZELRI and the technology centre of the Company. Mr. Zhou served as the chief technology officer of Shanghai branch of the technology centre of the Company from September 2005 to December 2006, and has been the chief scientist of the Company since January 2007. Mr. Zhou graduated from Dalian Railway Institute with a bachelor degree in engineering in 1985, obtained a master degree in engineering from the Central South University in 1997 and a doctorate degree in engineering from the Tongji University in 2009. Mr. Zhou was appointed as an employees' representative supervisor of the Company in January 2010.

Shuai Tianlong, aged 44, 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 Law firm 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 34, 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.

Liu Ke'an, aged 39, a former supervisor, chief technology officer. Mr. Liu is a senior engineer. He joined CSR 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 in 1994. He has been appointed as head of the systems project department, head of the drive 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 served as an employees' representative supervisor of the Company from December 2007 to January 2010. Mr. Liu has been the chief technology officer of the Company since January 2010.

Senior Management

Li Donglin, aged 43, an executive Director and general manager. Biographical details of Mr Li are set out above.

Liang Yuguo, aged 48, Party secretary and deputy general manager. Mr. Liang joined CSR ZELRI in 1983 and has been the deputy director, director and department head of the Testing Center of CSR ZELRI. He has served as a deputy director and general secretary of the Party branch of the research and development centre of CSR ZELRI from April 2002 to September 2004. He was the general manager of the new business unit of CSR ZELRI from September 2004 to December 2005, assistant to the general manager of the headquarters business of CSR ZELRI and the general manager of the new business unit of CSR ZELRI from January 2006 to January 2007. Mr. Liang graduated from the Department of Locomotive Electrical Transmission of the Shanghai Railway Institute 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 Central South 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 served as the chief executive officer of the Company from January 2009 to December 2009, and Party secretary and deputy general manager of the Company since January 2010.

Jiang Yi, aged 39, chief planning officer. Mr. Jiang joined CSR ZELRI in August 1992 and has held the positions of deputy general manager and 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 CSR ZELRI. Mr. Jiang graduated from the Northern Jiaotong University (now known as Beijing Jiaotong University) with a bachelor degree in Electric Traction and Drive 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 served as the chief marketing officer of the Company from December 2007 to December 2009. Mr. Liu has been the chief planning officer of the Company since January 2010.

Liu Ke'an, aged 39, chief technology officer. Biographical details of Mr. Liu are set out above.

Chen Jian, aged 39, chief marketing officer. Mr. Chen is a senior engineer. He joined CSR ZELRI in August 1995 and has held various positions as director of market department of the marketing centre and general manager of Zhuzhou Jierui Electronics Engineering Company Limited（株洲傑瑞電氣工程有限公司）and deputy general manager of Times Electronics. Mr. Chen has held various positions as general manager of the marketing centre of the Company and general manager of Times Electronics since July 2005, and vice chief economist of the Company from January 2009 to December 2009 Mr. Chen was the general manager of Baoji Times from April 2009 to January 2010, and has been vice chairman of the board and executive director and general manager of Baoji Times since April 2009. Mr. Chen graduated from Tongji University with a bachelor degree in Electronic Equipment and Metrological Technology in July 1995, obtained a master of Business Administration from Central South University in December 2006. Mr. Chen has been the chief marketing officer of the Company since January 2010.

Liu Daxi, aged 46, chief production officer. Mr. Liu is a senior engineer. He joined CSR ZELRI in July 1988. He has worked for the trial production department, the Electrical Equipment Factory and the manufacturing centre of CSR ZELRI. He has held various positions as deputy director and director of the engineering department of Electrical Equipment Factory, deputy director of the Electrical Equipment Factory, deputy director and director of the manufacturing centre. He graduated from Beijing Jiaotong University in July 1988 with a bachelor degree in Electric Traction and Drive Control. Mr. Liu served as vice chief economist of the Company from January 2008 to December 2009. Mr. Liu has been the chief production officer of the Company since January 2010.

Xiao Shaoping, aged 39, chief financial officer. Mr. Xiao is a senior accountant, an associate member of The Institute of Chartered Accountants in England and Wales, a Certified Public Accountant of China and a Certified Tax Accountant of China. Mr. Xiao joined CSR ZELRI in July 2003 and has successively held various positions as financial monitoring officer of financial asset department and vice director of financial asset department of rail transport department of CSR ZELRI. Mr. Xiao was a teacher of Zhuzhou Vocational Technology Institute from August 1993 to August 2000, investment manager of investment banking department of Hunan Tianyi Milkway Information Industry Company Limited (湖南天一銀河信息產業有限責任公司) from November 2001 to April 2002, director of financial asset department of the Company from January 2005 to January 2010. Mr. Xiao graduated from China Jiliang University with a bachelor degree in Metrological Technology and Management in June 1993, obtained a master degree in Accounting from Central South University in May 2003. He has attended a part-time doctorate degree in Management Science and Engineering of Central South University since September 2006. Mr. Xiao has been the chief financial officer of the Company since January 2010.

Tan Yongneng, aged 41, chief administration officer. Mr. Tan is an engineer. He joined CSR ZELRI in July 1990, and has successively held various positions as head of general manager's office of Times Electronics, head of department of Party and mass affairs and head of Party office of CSR ZELRI. He was the head of department of Party and mass affairs and head of auditing of the Company from December 2004 to December 2005, head of department of Party and mass affairs and head of Party office of CSR ZELRI from December 2005 to December 2007, and head of administration office and head of secretary office of decision-making committee of CSR ZELRI from January 2008 to January 2010. Mr. Tan graduated from Xiangtan University majored in Electronics Technology in July 1995, obtained a master degree in Psychology and Human Resources from Peking University in July 2002, and obtained a master degree of Business Administration from the Business School of Central South University in July 2005. Mr. Tan has been the chief administration officer of the Company since January 2010.

Yan Wu, aged 43, secretary of the Board. Mr. Yan is a senior engineer. Mr. Yan joined CSR 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 was appointed 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 to the Board of the Company in December 2007.

Tang Tuong Hock, Gabriel, aged 57, 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.

Feng Jianghua, aged 46, former vice president and technical director of the Company. Mr. Feng is a professor level senior engineer. He joined the CSR ZELRI in August 1989 and has held positions of deputy chief engineer, director of research and development Center and director of system integration department in CSR 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. Mr Fung served as technical director from September 2005 to December 2007, as vice president and technical director of the Company from December 2007 to January 2010, as a director of Dynex since September 2008 and as deputy general manager of CSR ZELRI since January 2010.

Chen Mingjun, aged 37, former chief financial officer. Mr. Chen is a senior accountant. He joined CSR 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 CSR ZELRI from June 2004 to December 2006 concurrently. He served as the deputy general manager of Zhuzhou CSR New Business Investment and Development Co., Ltd. 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 the chief financial officer of the Company from December 2007 to January 2010, and the deputy chief economist and head of strategic planning department of CSR ZELRI since January 2010 .

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 2009, 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

As at the date of this report, the Board consists of ten Directors, among whom Mr. Ding Rongjun is the Chairman of the Board and an executive Director; Mr. Deng Huijin is the Vice Chairman of the Board and a non-executive Director; Mr. Li Donglin is an executive Director; Messrs. Lu Penghu 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, Mr. Liao Bin resigned as a non-executive Director and authorized representative of the Company due to work-related reason on 19 August 2009, and Mr. Deng Huijin was appointed as a non-executive Director to fill his vacancy with effect from 19 August 2009.

Mr. Song Yali resigned as Vice Chairman of the Board and a non-executive Director on 17 April 2010 as a result of normal change in job position, and Mr. Lu Penghu was redesignated as a non-executive Director on 17 April 2010. To fill these vacancies, Mr. Deng Huijin was appointed as Vice Chairman of the Board and a non-executive Director, and Mr. Li Donglin was appointed as an executive Director on 17 April 2010.

The Company has entered into service contracts with all Directors for a term of three years except for Mr. Deng Huijin and Mr. Li Donglin whose terms will expire at the conclusion of the annual general meeting of 2009. 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 general manager), including any financial, business, familial or other material relevant relationship.

The Company has received annual confirmations 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 seven Board meetings, of which three 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	7	7	100%	
Deng Huijin	Non-Executive Director	2	2	100%	Appointed as a non-executive Director at the fifth meeting of the second session of the Board held on 19 August 2009
Li Donglin	Executive Director	N/A	N/A	N/A	Appointed as an executive Director at the seventh meeting of the second session of the Board on 17 April 2010
Lu Penghu	Non-Executive Director	7	7	100%	Redesignated as a non-executive Direcctor at the seventh meeting of the second session of the Board on 17 April 2010
Ma Yunkun	Non-Executive Director	7	7	100%	Entrusted to participate in the fourth meeting of the second session of the Board on 17 April 2009
Gao Yucai	Independent Non-Executive Director	7	7	100%	
Chan Kam Wing	Independent Non-Executive Director	7	7	100%	
Pao Ping Wing	Independent Non-Executive Director	7	7	100%	
Tan Xiao'ao	Independent Non-Executive Director	7	7	100%	
Liu Chunru	Independent Non-Executive Director	7	7	100%	
Song Yali	Vice Chairman and Non-Executive Director	7	7	100%	Resigned as Vice Chairman of the Board and non-executive Director at the seventh meeting of the second session of the Board on 17 April 2010
Liao Bin	Non-Executive Director	5	5		Resigned as a non-executive Director at the fifth meeting of the second session of the Board held on 19 August 2009

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 general manager, or, through the general manager, 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. Specialized Committees of the Board

The Company has established separate strategy, audit, risk management, nomination and remuneration committees. The function of each specialized 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, including two executive Directors, one non-executive Director and one independent non-executive Director. The members of the strategy committee are Messrs. Ding Rongjun, Li Donglin, Lu Penghu and Gao Yucai. Mr. Ding Rongjun 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, including a non-executive Director and five independent non-executive Directors. The committee's members are Messrs. Chan Kam Wing, Pao Ping Wing, Gao Yucai, Tan Xiao'ao, Ms. Liu Chunru and Mr. 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 four meetings 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. The following table shows the record of attendance of the audit committee members:

Committee member	Attendance rate for meetings held during the year ended 31 December 2009
Chan Kam Wing	4/4
Pao Ping Wing	4/4
Gao Yucai	4/4
Tan Xiao'ao	4/4
Liu Chunru	4/4
Ma Yunkun	3/4

The Company has established an audit and risk control division with relatively independent internal audit functions. The audit and risk control 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, including a non-executive Director and two independent non-executive Directors. The members of the risk management committee are Messrs. Deng Huijin, Chan Kam Wing and Tan Xiao'ao. Mr. Deng Huijin 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 one meeting during the reporting period. At such meeting, the committee mainly discussed issues concerning corporate governance report and internal control.

d Nomination and remuneration committee

The Company's remuneration committee was established in October 2005, and changed its name to nomination and remuneration committee at the first meeting of the second term of the Board held on 27 June 2008. It currently consists of five Directors, including two executive Directors and three independent non-executive Directors. The committee members are Messrs. Pao Ping Wing, Ding Rongjun, Li Donglin, Tan Xiao'ao, and Ms. 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 be responsible for nominating and appraisal works of Directors and senior management members, to 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, and the change of Directors were the main issues discussed at such meetings.

IV Chairman and General Manager

The offices of the Chairman and the General Manager of the Company are held by Mr. Ding Rongjun and Mr. Li Donglin 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 General Manager 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 General Manager is responsible to the Board of Directors. The General Manager 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 general manager , chief supervisor and assistant to the general manager 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, dismissal and 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 2009, the Company appointed Ernst & Young to provide annual results auditing and interim results review services to the Company. Ernst & Young also provided quarterly agreed upon procedures service for connected transactions and other agreed upon procedures service for the Company. Details of the external auditors' remuneration of the Company are as follows:

Service provided:	For the year ended 31 December 2009 (RMB'000)
Annual results auditing service	4,530
Interim results review service	650
Quarterly agreed upon procedures service for connected transactions	500
Other agreed upon procedures service	20

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, review and agreed upon procedures services included advance for business taxes 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 2009.

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 Control

The Company has a sound organization system of internal control. The Board is responsible for maintaining a reliable and effective internal control system. Guided by the audit committee and the risk control committee under the Board, the audit and risk control division carry out supervision, improvement and evaluation for internal controls, supervise and timely make up internal control deficiencies and control risks. The management and control of the Company at the corporate level, business level and process level are better protected, hance safeguarding the security of assets and interests of shareholders of the Company.

During the reporting period, the Company further enhanced and improved its internal control system, and strengthened the awareness on risk management. This mainly include implementing self-examination and rectification of critical control points in the internal control system, preparing "Risk Management Manual", researching and evaluating the risks of the Baoji Times Project, carrying out audit of material procurement contracts and various types of contracts, promoting and implementing system procedures, and promoting budget management of ERP on-line. Through various work done by the management, all systems of the Company are refined, enforced and implemented. Meanwhile, control capability of the Group strengthened, internal management of the Company entered the track of sound development, the management could better guide and control business, and corporate governance maintained well. The current internal control system has basically achieved a sound, reasonable, effective and reliable internal control.

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

CSR ZELRI, the controlling shareholder of the Company, and CSRG, the ultimate controlling shareholder of the Company (hereinafter referred to as "Controlling Shareholders"), have each submitted their "explanations regarding the implementation of the non-competition and indemnity agreement in 2009" 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 2009. The independent non-executive Directors consider that the Parent Group and the CSRG Group (excluding the Parent Group) had complied with the terms of the non-competition and indemnity agreements in 2009. The respective businesses of the Parent Group and the CSRG Group (excluding the Parent 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 specialized 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 quaterly reports, interim and annual reports; (2) holding annual general meeting and 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.

The Board of Directors is pleased to present the Directors' Report and the audited financial statements of the Company and the Group for the year ended 31 December 2009.

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, manufacture and sales of urban railway train electrical systems. In addition, the Group is also engaged in the design, manufacture 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 2009, prepared in accordance with International Financial Reporting Standards ("IFRSs"), are set out on page 47 to page 128 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 RMB672.51 million as at 31 December 2009. The Board proposed distribution of a cash dividend of RMB0.195 per share (including applicable tax) for the year.

Pursuant to the provisions of the Corporate Income Tax Law of the People's Republic of China and the Implementing Regulations of the Corporate Income Tax Law of the People's Republic of China, effective from 1 January 2008, any PRC domestic enterprise shall withhold the corporate 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 corporate 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 corporate 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 18 June 2010.

The dividends are payable to shareholders whose names appear on the register of members at the close of business on 18 May 2010. The Company's share register will be closed from 19 May 2010 to 18 June 2010 (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 2009 annual general meeting to be held on 18 June 2010).

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 2009, approximately RMB1,749.76 million has been applied to the intended uses as set out in the Company's prospectus, details of which are set out below:

(1) Approximately RMB886.60 million for investments in train power converters, auxiliary power supply equipment and control systems;

(2) Approximately RMB173.00 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 RMB411.49 million for investments in large size power semi-conductor devices;

(5) Approximately RMB92.99 million for investments in sensors and related products; and

(6) Approximately RMB87.98 million for other areas.

In addition, the Company relocated part of the proceeds which was intended for operating capital, whereby approximately RMB7.18 million was used to fund the purchase of 12% and 1% interest in Zhuzhou Siements held by CSR Zhuzhou and Siemens Ltd., China respectively and approximately RMB60 million was used to fund the establishment of a joint venture Baoji Times. Details are set out in the Company's announcements dated 16 September 2008 and 25 March 2009 respectively. Save for that, as of 31 December 2009, the use 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 2009 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 reporting period. Please refer to note 35 to the financial statements for details.

Dynex completed a rights issue of 40,195,714 shares in December 2009. The Company, being the Dynex's majority shareholder, subscribed for 75% of the rights shares in proportion to its existing shareholding in Dynex. Upon completion of rights issue, the number of shares in issue of Dynex has been increased from 40,195,714 to 80,391,428.

Stock Options of Dynex

Dynex 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 3.30% of the issued share capital of Dynex as at 31 December 2009. 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 issued common shares of Dynex 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.

During the reporting period, except for the exercise of 880 options at an exercise price of Cdn$0.08, 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 December 2009
Directors of Dynex	9 August 2005	8 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	9 August 2005	8 August 2010	Cdn$0.08	52,865
Total				267,622

Notes:

1. All outstanding options are fully vested.

2. The outstanding options have a weighted average remaining life of 1 year and 11 months and a weighted average exercise price of Cdn$0.20.

3. The closing price of the shares of Dynex immediately before 9 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 2009, calculated in accordance with relevant regulations, the Company's distributable reserves amounted to approximately RMB672.51 million, of which approximately RMB211.43 million 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 68.59% of the Group's total sales.

CSR Zhuzhou is the largest customer of the Group, and the percentage of the Group's sales to CSR Zhuzhou during the year was approximately 23.32% of the Group's total sales. CSR Zhuzhou is owned as to 5.14% by the Parent Company and is beneficially owned as to 94.35% by CSR (exclusive of Parent Company) .

CSR Sifang Co., Ltd. is one of the Group's five largest customers. It is owned as to 97.17% by CSR.

CSR Qishuyan Locomotive Co., Ltd is one of the Group's five largest customers. It is owned as to 100% 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 secretary to the Party committee 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 less than 30% of the total purchases 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

Li Donglin - General Manager (appointed as an executive Director on 17 April 2010)

Non-executive Directors

Deng Huijin – Vice Chairman of the Board

(appointed as a non-executive Director of the Company on 19 August 2009 and appointed as Vice Chairman of the Board on 17 April 2010)

Lu Penghu – President

(resigned as President of the Company on 19 January 2010 and redesignated as a non-executive Director on 17 April 2010)

Ma Yunkun

Liao Bin (resigned as a non-executive Director on 19 August 2009)

Song Yali - Vice Chairman of the Board

(resigned as Vice Chairman of the Board and a non-executive Director on 17 April 2010)

Independent non-executive Directors

Gao Yucai

Chan Kam Wing, Clement

Pao Ping Wing

Tan Xiao'ao

Liu Chunru

Supervisors

Pang Yiming

Zhou Guifa (elected as an employees' representative supervisor of the Company at the meeting of employees' representative committee held on 20 January 2010)

Shuai Tianlong - independent supervisor

Wang Kun - independent supervisor

Zhang Liqiang - Chairman of the Supervisory Committee (resigned as a supervisor of the Company and the chairman of the Supervisory Committee on 17 April 2010 with effect from the conclusion of the 2009 annual general meeting)

Liu Ke'an (resigned as an employees' representative supervisor of the Company on 20 January 2010)

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 12 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. The term of the service contracts with Mr. Deng Huijin and Mr. Li Donglin will expire at the conclusion of the 2009 annual general meeting while other contracts are 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 respective re-elections of the Directors and supervisors at the general meeting or the employees' 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.

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 general manager 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 2009, none of the Directors, supervisors, the general manager 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 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. The Company releases annual training plan each year pursuant to which all departments need to organize staff training according to their work requirement. The management and other employees are required to undertake training for enhancing work ability as specified by the Group. The Company has established channels for career development of employees. Employees have opportunities of promotion and development according to the orders of different positions within the Company. As at 31 December 2009, the Group has 3,997 full time employees (excluding those of Dynex), and the total amount of remuneration (including salaries and allowances) for employees in 2009 was approximately RMB331.68 million (excluding those of Dynex).

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 financial statements.

Dynex 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 2009 was as follows:

		As at 31 December 2009	
Shareholder	Type	Number of shares	Approximate % of issued share capital
CSR 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 2009 were as follows:

Name of substantial shareholder	Number of shares held	Capacity	Approximate % of Domestic Share share capital	Approximate % of H Share share capital	Approximate % of issued share capital
CSR 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%
JPMorgan Chase & Co.	31,583,710 (Long position)	Beneficial owner	—	6.92%	2.91%
	31,564,048 (Lending pool shares)	Custodian/ Approved lending agent	—	6.92%	2.91%
Value Partners Limited (note 3)	28,051,000 (Long position)	Investment manager	—	6.15%	2.59%
Value Partners Group Limited (note 3)	28,051,000 (Long position)	Interest in controlled entity	—	6.15%	2.59%
Cheah Capital Management Limited (note 3)	28,051,000 (Long position)	Interest in controlled entity	—	6.15%	2.59%
Cheah Company Limited (note 3)	28,051,000 (Long position)	Interest in controlled entity	—	6.15%	2.59%
Hang Seng Bank Trustee International Limited (note 3)	28,051,000 (Long position)	Trustee	—	6.15%	2.59%
Cheah Cheng Hye	28,051,000 (Long position)	Founder of discretionary trust	—	6.15%	2.59%
To Hau Yin	28,051,000 (Long position)	Interest of spouse	—	6.15%	2.59%
The Hamon Investment Group Pte Limited	27,621,000 (Long position)	Investment manager	—	6.06%	2.55%

Note:

(1) CSR is interested in 100% in the registered capital of CSR ZELRI and CSR Investment & Leasing, and is directly and indirectly interested in 99.49% in the registered capital of CSR Zhuzhou. Accordingly, CSR is deemed under the SFO to be interested in the shares held by each of CSR 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.

(3) The 28,051,000 shares are held by Value Partners Limited, a wholly-owned subsidiary of Value Partners Group Limited the 35.65% capital of which are owned by Cheah Capital Management Limited, which is in turn a wholly-owned subsidiary of Cheah Company Limited. Cheah Company Limited is a wholly-owned subsidiary of Hang Seng Bank Trustee International Limited, being the trustee of The C H Cheah Family Trust, a discretionary trust. Mr. Cheah Cheng Hye is the founder of The C H Cheah Family Trust while Ms To Hau Yin is the spouse of Mr. Cheah Cheng Hye. The above corporation and individuals are deemed under the SFO to be interested in the shares held by Value Partners Limited.

Continuing Connected Transactions

Transactions conducted between the Group and the following parties constitute continuing connected transactions of the Company under the Listing Rules. During the reporting period, 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

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.

(a) On 27 April 2009, the Company as the lessor entered into a renewed lease agreement with the Parent Company as the lessee, pursuant to which the Company agreed to lease to the Parent Company the three stories of research and administrative building and its ancillary facilities with a total area of 5,220 square meters for a term of one year commencing from 1 January 2009 and ending on 31 December 2009 at a total rent of RMB1,147,099.89. The Company received a rent of RMB1,147,099.89 from the Parent Company for the year ended 31 December 2009.

(b) On 28 April 2008, the Company as the lessor and the Parent Group as the lessee 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. For the year ended 31 December 2009, the Company received from the Parent Company rental payment in the amount of RMB1,710,000.

(c) On 27 April 2009, Times Electronics as the lessor and NERCC as the lessee entered into a plant lease agreement pursuant to which Times Electronics agreed to lease to NERCC certain factory premises and ancillary facilities in Zhuzhou with a total area of 3,116.46 square meters for a term of twelve months starting from 1 January 2009 and ending on 31 December 2009 at a total rental of RMB350,000. As at 31 December 2009, Times Electronics received from NERCC rental payment in the amount of RMB350,000.

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.

(a) 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 agreed to supply and procure its subsidiaries to supply train-borne electrical systems and electrical components of different segments to the CSRG Group while CSRG Group agreed to supply and procure its subsidiaries (excluding the Parent Group) 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.

On 14 April 2009, the Company entered into a supplementary agreement to the mutual supply agreement with CSRG to revise the annual caps of continuing connected transactions for each of the five years ended 31 December 2013 contemplated under the mutual supply agreement. The supplementary agreement and the revised annual caps of continuing connected transactions for each of the five years ended 31 December 2013 was approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

For the year ended 31 December 2009, the amount payable by the Group to the CSRG Group for the products amounted to RMB181.19 million. The amount payable by the CSRG Group to the Group for the products amounted to RMB1,687.96 million, which are within the annual caps of continuing connected transactions for the year ended 31 December 2009 approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

(b) 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 agreed to supply and procure its subsidiaries 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 and procure its subsidiaries 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.

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, on 14 April 2009, the Company entered into the second supplemental mutual supply agreement to revise the annual caps of continuing connected transactions for each of the five years ended 31 December 2013. Save for the annual caps, the terms of the second supplemental mutual supply agreement are the same as those of the supplementary mutual supply agreement. The second supplemental mutual supply agreement and the revised annual caps of continuing connected transactions for each of the five years ended 31 December 2013 was approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

For the year ended 31 December 2009, the amount payable by the Group to Kunming China Railway Group for the products supplied by it amounted to RMB164.00 million. The amount payable by Kunming China Railway Group for the products supplied by the Group amounted to RMB352.10 million. Both are within the cap approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

(c) Mutual supply of products with China Railway Group

On 14 April 2009, the Company and China Railway entered into a mutual supply agreement under which the Company agreed to supply and procure its subsidiaries to supply to China Railway Group certain mechanical products and after-sales services for use in railway projects while China Railway Group also agreed to supply and procure its subsidiaries to supply to the Group certain parts and components as well as machining support services for the production of mechanical products in railway projects. The agreement, effective for a period from 23 June 2009 to 31 December 2011, has fixed the annual caps of continuing connected transactions between the Company and China Railway Group under the agreement for each of the three financial years ended 31 December 2009 to 2011. The agreement and the annual caps of continuing transactions for the three year ended 31 December 2009 to 2011 were approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

For the year ended 31 December 2009, the amount payable by the Group to China Railway Group for the products supplied by it amounted to RMB32.90 million. The amount payable by China Railway Group for the products supplied by the Group amounted to RMB46.00 million. Both are within the caps approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

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 2009 approved at the extraordinary general meeting held by the Company on 23 June 2009.

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 (resigned as a non-executive Director on 19 August 2009), Ding Rongjun and Song Yali (resigned as the Vice Chairman and a non-executive Director on 17 April 2010) and Mr. Deng Huijin 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 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 Group and the CSRG Group, the Kunming China Railway Group and the China Railway Group.

(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 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 (excluding the Parent Group) on 30 November 2006. The Parent Group and the CSRG Group (excluding the Parent 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 (excluding the Parent Group) for 2009, and reviewed relevant information provided by the Parent Group and the CSRG Group (excluding the Parent Group). The independent non-executive Directors were of the opinion that the Parent Group and the CSRG Group (excluding the Parent Group) complied with the relevant terms of the non-competition and indemnity agreements in 2009. The Parent Group and the CSRG Group (excluding the Parent 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

The Group has no post balance sheet event.

Taxation

Pursuant to the "Corporate Income Tax Law of the People's Republic of China" and the "Implementation Regulations of the Corporate Income Tax Law of the People's Republic of China", with effect from 1 January 2008, any PRC domestic enterprise shall withhold the corporate 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 2009, no foreign shareholder who is non-PRC resident is liable to individual or corporate 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.

By order of the Board

Ding Rongjun
Chairman of the Board

Changsha, Hunan, PRC
17 April 2010

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 two 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 2008 work report of the Supervisory Committee, the 2008 financial report, the 2008 annual report, the 2009 interim report and connected transactions.

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 2009, 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 system 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 2009 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 relocated 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 the Company dated 16 September 2008 for details.

In order to boost the development of large-scale railway maintenance machine industry, the Company relocated part of the net proceeds of approximately RMB600 million from the global offering initially designed to be used as working capital to finance the establishment of a joint venture Baoji Times. Please refer to the announcement of the Company dated 25 March 2009 for details.

Save as disclosed above, as at 31 December 2009, 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 connected transactions between the Group and each of the CSRG Group, the Kunming China Railway Group and the China Railway Group 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 considers that the Group's transactions in 2009 were in compliance with the relevant laws and regulations of the PRC and is not aware of any harm done to the Company's and shareholders' interest by means of connected transactions, and the total value of connected transactions was within the respective annual caps approved by the independent shareholders at the extraordinary general meeting held on 23 June 2009.

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 (excluding the Parent 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 seven 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
Changsha, Hunan, PRC

17 April 2010

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 49 to 128, which comprise the consolidated and company statements of financial position as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows 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.

Independent Auditors' Report

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)

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 2009 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 2010

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
REVENUE	5	**3,325,593**	2,119,323
Cost of sales		**(2,118,287)**	(1,332,142)
Gross profit		**1,207,306**	787,181
Other income and gains	5	**88,678**	119,432
Selling and distribution costs		**(203,353)**	(127,541)
Administrative expenses		**(463,594)**	(284,411)
Other expenses		**(12,469)**	(4,895)
PROFIT FROM OPERATIONS		**616,568**	489,766
Finance costs	7	**(8,013)**	(959)
Share of profits and losses of:			
A jointly-controlled entity	19	**15,767**	8,309
Associates	20	**(97)**	(274)
PROFIT BEFORE TAX	6	**624,225**	496,842
Income tax expense	10	**(89,836)**	(73,505)
PROFIT FOR THE YEAR		**534,389**	423,337
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**10,648**	(16,289)
Income tax effect		**—**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**10,648**	(16,289)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**545,037**	407,048

Consolidated Statement of Comprehensive Income

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
Profit attributable to:			
Owners of the parent	11	**530,881**	422,300
Minority interests		**3,508**	1,037
		534,389	423,337
Total comprehensive income attributable to:			
Owners of the parent	11	**539,579**	408,396
Minority interests		**5,458**	(1,348)
		545,037	407,048
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
– Basic and diluted		**RMB0.49**	RMB0.39

Details of the dividends proposed for the year are disclosed in note 12 to the financial statements.

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,312,741**	933,250
Prepaid land lease payments	15	**102,490**	73,937
Goodwill	16	**52,874**	47,743
Other intangible assets	17	**94,670**	87,557
Interest in a jointly-controlled entity	19	**97,091**	81,325
Interests in associates	20	**19,793**	18,906
Available-for-sale investments	21	**400**	400
Deferred tax assets	34	**20,828**	12,630
Total non-current assets		**1,700,887**	1,255,748
CURRENT ASSETS			
Inventories	22	**888,925**	523,293
Trade receivables	23	**742,255**	711,544
Bills receivable	24	**691,190**	327,937
Prepayments, deposits and other receivables	25	**210,081**	450,516
Financial assets at fair value through profit or loss	26	**—**	100,000
Pledged deposits	27	**28,811**	3,362
Cash and cash equivalents	27	**1,138,562**	796,722
Total current assets		**3,699,824**	2,913,374
CURRENT LIABILITIES			
Trade payables	28	**718,381**	370,358
Bills payable	29	**162,780**	46,234
Other payables and accruals	30	**322,278**	193,927
Provision for warranties	31	**93,360**	51,573
Interest-bearing bank and other borrowings	32	**120,800**	20,703
Government grants	33	**4,656**	6,916
Tax payable		**48,304**	12,130
Total current liabilities		**1,470,559**	701,841
NET CURRENT ASSETS		**2,229,265**	2,211,533
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,930,152**	3,467,281

Consolidated Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	32	**3,330**	3,736
Government grants	33	**37,242**	27,000
Deferred tax liabilities	34	**10,961**	8,876
Total non-current liabilities		**51,533**	39,612
NET ASSETS		**3,878,619**	3,427,669
EQUITY			
Equity attributable to owners of the parent			
Issued capital	35	**1,084,256**	1,084,256
Reserves	36(a)	**2,484,757**	2,156,805
Proposed final dividend	12	**211,430**	168,060
		3,780,443	3,409,121
Minority interests		**98,176**	18,548
TOTAL EQUITY		**3,878,619**	3,427,669

Ding Rongjun
Director

Li Donglin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2009

		Attributable to owners of the parent								
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2008		1,084,256	1,495,630	52,287	—	367,803	157,217	3,157,193	4,257	3,161,450
Total comprehensive income for the year		—	—	—	(13,904)	422,300	—	408,396	(1,348)	407,048
Acquisition of subsidiaries		—	—	—	—	—	—	—	18,304	18,304
Acquisition of minority interests		—	—	—	—	—	—	—	(2,665)	(2,665)
Final 2007 dividend declared		—	—	—	—	217	(157,217)	(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 and 1 January 2009		**1,084,256**	**1,496,162***	**87,692***	**(13,904)***	**586,855***	**168,060**	**3,409,121**	**18,548**	**3,427,669**
Total comprehensive income for the year		**–**	**–**	**–**	**8,698**	**530,881**	**–**	**539,579**	**5,458**	**545,037**
Capital contribution from minority shareholders		**–**	**–**	**–**	**–**	**–**	**–**	**–**	**75,646**	**75,646**
Disposal of a subsidiary	37	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(1,476)**	**(1,476)**
Final 2008 dividend declared		**–**	**–**	**–**	**–**	**(197)**	**(168,060)**	**(168,257)**	**–**	**(168,257)**
Transfer from retained profits		**–**	**–**	**52,115**	**–**	**(52,115)**	**–**	**–**	**–**	**–**
Proposed final 2009 dividend	12	**–**	**–**	**–**	**–**	**(211,430)**	**211,430**	**–**	**–**	**–**
At 31 December 2009		**1,084,256**	**1,496,162***	**139,807***	**(5,206)***	**853,994***	**211,430**	**3,780,443**	**98,176**	**3,878,619**

* These reserve accounts comprise the consolidated reserves of RMB2,484,757,000 (2008: RMB2,156,805,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**624,225**	496,842
Adjustments for:			
Finance costs	7	**8,013**	959
Interest income	5	**(15,770)**	(18,275)
Investment income from financial instruments	5	**(3,090)**	(31,205)
Share of profits and losses of:			
Associates		**97**	274
A jointly-controlled entity		**(15,767)**	(8,309)
Loss on disposal of items of property, plant and equipment	6	**1,509**	1,358
Depreciation of items of property, plant and equipment		**76,578**	54,555
Impairment of items of property, plant and equipment	6	**213**	—
Amortisation of prepaid land lease payments	6	**1,753**	1,564
Amortisation of other intangible assets		**10,772**	2,312
Impairment of trade and other receivables	6	**5,873**	3,560
Provision for obsolete inventories	6	**23,511**	10,398
		717,917	514,033
Increase in trade receivables, bills receivable, prepayments, deposits and other receivables		**(437,619)**	(316,494)
Increase in inventories		**(397,129)**	(54,644)
Increase in trade payables, bills payable, other payables and accruals		**615,412**	162,599
Change in government grants		**7,982**	19,705
Increase in provision for warranties		**41,787**	5,927
Cash generated from operations		**548,350**	331,126
Income tax paid		**(95,949)**	(75,768)
Net cash flows from operating activities		**452,401**	255,358

	Notes	2009 RMB'000	2008 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**15,770**	18,275
Investment income from financial instruments		**3,090**	31,205
Dividend received from a jointly-controlled entity		**—**	6,000
Purchases of items of property, plant and equipment		**(435,957)**	(365,240)
Additions to prepaid land lease payments		**(17,023)**	—
Additions to other intangible assets		**(15,318)**	(55,334)
Proceeds from disposal of items of property, plant and equipment		**2,628**	624
Acquisition of subsidiaries		**—**	(99,604)
Acquisition of minority interests		**—**	(2,133)
Acquisition of an associate		**—**	(11,508)
Disposal of a subsidiary	37	**(1,130)**	—
Decrease/(Increase) of loan receivables		**300,000**	(235,000)
Decrease/(Increase) in financial assets at fair value through profit or loss		**100,000**	(100,000)
Decrease/(Increase) in non-pledged time deposits with original maturity of three months or more when acquired	27	**(30,128)**	740,000
Increase in pledged time deposits	27	**(25,449)**	(3,355)
Net cash flows used in investing activities		**(103,517)**	(76,070)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contributions from minority shareholders		**43,695**	—
New bank and other borrowings		**120,650**	40,351
Repayment of bank and other borrowings		**(25,247)**	(35,561)
Interest paid		**(8,013)**	(959)
Dividends paid		**(168,257)**	(157,000)
Net cash flows used in financing activities		**(37,172)**	(153,169)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**311,712**	26,119
Cash and cash equivalents at beginning of year		**736,722**	710,603
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**1,048,434**	736,722

Statement of Financial Position

31 December 2009

	Notes	2009 RMB'000	2008 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**990,137**	722,340
Prepaid land lease payments	15	**49,931**	50,973
Other intangible assets	17	**65,136**	55,924
Interests in subsidiaries	18	**473,681**	295,520
Investment in a jointly-controlled entity	19	**63,515**	63,515
Investment in an associate	20	**19,180**	19,180
Deferred tax assets	34	**16,564**	10,945
Total non-current assets		**1,678,144**	1,218,397
CURRENT ASSETS			
Inventories	22	**747,141**	412,601
Trade receivables	23	**534,041**	561,832
Bills receivable	24	**614,035**	299,587
Prepayments, deposits and other receivables	25	**329,286**	522,729
Financial assets at fair value through profit or loss	26	**—**	100,000
Pledged deposits	27	**21,790**	—
Cash and cash equivalents	27	**770,735**	659,263
Total current assets		**3,017,028**	2,556,012
CURRENT LIABILITIES			
Trade payables	28	**648,932**	396,359
Bills payable	29	**142,016**	48,294
Other payables and accruals	30	**305,410**	148,635
Provision for warranties	31	**81,368**	40,266
Interest-bearing bank and other borrowings	32	**14,381**	—
Government grants	33	**4,656**	6,746
Tax payable		**40,743**	18,137
Total current liabilities		**1,237,506**	658,437
NET CURRENT ASSETS		**1,779,522**	1,897,575
TOTAL ASSETS LESS CURRENT LIABILITIES		**3,457,666**	3,115,972
NON-CURRENT LIABILITIES			
Government grants	33	**27,000**	27,000
NET ASSETS		**3,430,666**	3,088,972
EQUITY			
Issued capital	35	**1,084,256**	1,084,256
Reserves	36(b)	**2,134,980**	1,836,656
Proposed final dividend	12	**211,430**	168,060
TOTAL EQUITY		**3,430,666**	3,088,972

Ding Rongjun
Director

Li Donglin
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. ("CSR ZELRI") and the ultimate holding company of the Group is China South Locomotive & Rolling Stock Industry (Group) Corporation ("CSRG"), which were 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 in note 2.4 to the financial statements.

The Company was established in September 2005 as part of the restructuring of CSR ZELRI (the "Reorganisation") and pursuant to the Reorganisation, CSR 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 CSR ZELRI credited as fully paid as consideration.

As CSR 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 CSR 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 2008 and 2009 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 2009. 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. Where there is a loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting year during which the Group had control. 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 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements. Except for in certain cases, giving rise to new and revised accounting policies, the adoption of these new and revised IFRSs has had no significant effect on 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*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*
IFRS 8	*Operating Segments*
IAS 1 (Revised)	*Presentation of Financial Statements*
IAS 18 Amendment*	Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*
IAS 23 (Revised)	*Borrowing Costs*

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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*
IFRIC 9 and IAS 39 Amendments	Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*
IFRIC 13	*Customer Loyalty Programmes*
IFRIC 15	*Agreements for the Construction of Real Estate*
IFRIC 16	*Hedges of a Net Investment in a Foreign Operation*
IFRIC 18	*Transfers of Assets from Customers (adopted from 1 July 2009)*
Improvements to IFRSs (May 2008)	Amendments to a number of IFRSs

* Included in *Improvements to IFRSs 2009* (as issued in April 2009).

The principal effects of adopting these new and revised IFRSs are as follows:

(a) 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*

The IAS 27 Amendment requires all dividends from subsidiaries, associates or jointly-controlled entities to be recognised in the profit or loss in the parent's separate financial statements. The distinction between pre and post acquisition profits is no longer required. However, the payment of such dividends requires the Company to consider whether there is an indicator of impairment. The amendment is applied prospectively. IAS 27 has also been amended to deal with the measurement of the cost of investments where a parent reorganises the structure of its group by establishing a new entity as its parent. As the Group is not a first-time adopter of IFRSs, the IFRS 1 Amendment is not applicable to the Group.

(b) Amendments to IFRS 2 *Share-based Payment – Vesting Conditions and Cancellations*

The IFRS 2 Amendments clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a vesting or non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation. The adoption of this amendments did not have any impact on the financial position or result of operations of the Group.

(c) Amendments to IFRS 7 *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*

The IFRS 7 Amendments require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by sources of inputs using a three-level fair value hierarchy, by class, for all financial instruments recognised at fair value. In addition, a reconciliation between the beginning and ending balance is now required for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and assets used for liquidity management. The fair value measurement disclosures and the revised liquidity risk disclosures are not significantly impacted by the amendments.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(d) IFRS 8 *Operating Segments*

IFRS 8, which replaces IAS 14 *Segment Reporting*, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers. The Group concluded that the operating segment determined in accordance with IFRS 8 are the same as the business segment previously identified under IAS 14.

(e) IAS 1 (Revised) *Presentation of Financial Statements*

IAS 1 (Revised) introduces changes in the presentation and disclosures of financial statements. The revised standard separates owner and non-owner changes in equity. The statement of changes in equity includes only details of transactions with owners, with all non-owner changes in equity presented as a single line. In addition, this standard introduces the statement of comprehensive income, with all items of income and expense recognised in profit or loss, together with all other items of recognised income and expense recognised directly in equity, either in one single statement, or in two linked statements. The Group has elected to present one single statement.

(f) Amendment to Appendix to IAS 18 *Revenue – Determining whether an entity is acting as a principal or as an agent*

Guidance has been added to the appendix (which accompanies the standard) to determine whether the Group is acting as a principal or as an agent. The features to consider are whether the Group (i) has the primary responsibility for providing the goods or services, (ii) has inventory risk, (iii) has the discretion to establish prices and (iv) bears credit risk. The Group has assessed its revenue arrangements against these criteria and concluded that it is acting as a principal in all arrangements. The amendment has had no impact on the financial position or results of operations of the Group.

(g) IAS 23 (Revised) *Borrowing Costs*

IAS 23 has been revised to require capitalisation of borrowing costs when such costs are directly attributable to the acquisition, construction or production of a qualifying asset. As the Group's current policy for borrowing costs aligns with the requirements of the revised standard, the revised standard has had no impact on the financial position or results of operations of the Group.

(h) Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*

The IAS 32 Amendments provide a limited scope exception for puttable financial instruments and instruments that impose specified obligations arising on liquidation to be classified as equity if they fulfil a number of specified features. The IAS 1 Amendments require disclosure of certain information relating to these puttable financial instruments and obligations classified as equity. As the Group currently has no such financial instruments or obligations, the amendments have had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(i) Amendments to IFRIC 9 *Reassessment of Embedded Derivatives* and IAS 39 *Financial Instruments: Recognition and Measurement – Embedded Derivatives*

The amendment to IFRIC 9 requires an entity to assess whether an embedded derivative must be separated from a host contract when the entity reclassifies a hybrid financial asset out of the fair value through profit or loss category. This assessment is to be made based on circumstances that existed on the later of the date the entity first became a party to the contract and the date of any contract amendments that significantly change the cash flows of the contract. IAS 39 has been revised to state that if an embedded derivative cannot be separately measured, the entire hybrid instrument must remain classified as fair value through profit or loss in its entirety. The adoption of the amendments has had no impact on the financial position or results of operations of the Group.

(j) IFRIC 13 *Customer Loyalty Programmes*

IFRIC 13 requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted. The consideration received in the sales transaction is allocated between the loyalty award credits and the other components of the sale. The amount allocated to the loyalty award credits is determined by reference to their fair value and is deferred until the awards are redeemed or the liability is otherwise extinguished. As the Group currently has no customer loyalty award scheme, the interpretation has had no impact on the financial position or results of operations of the Group.

(k) IFRIC 15 *Agreements for the Construction of Real Estate*

IFRIC 15 clarifies when and how an agreement for the construction of real estate should be accounted for as a construction contract in accordance with IAS 11 *Construction Contracts* or an agreement for the sale of goods or services in accordance with IAS 18 *Revenue*. As the Group currently is not involved in any construction of real estate, the interpretation is unlikely to have any financial impact on the Group.

(l) IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*

IFRIC 16 provides guidance on the accounting for a hedge of a net investment in a foreign operation. This includes clarification that (i) hedge accounting may be applied only to the foreign exchange differences arising between the functional currencies of the foreign operation and the parent entity; (ii) a hedging instrument may be held by any entities within a group; and (iii) on disposal of a foreign operation, the cumulative gain or loss relating to both the net investment and the hedging instrument that was determined to be an effective hedge should be reclassified to the profit or loss as a reclassification adjustment. As the Group currently has no hedge of a net investment in a foreign operation, the interpretation has had no impact on the financial position or results of operations of the Group.

(m) IFRIC 18 *Transfers of Assets from Customers* (adopted from 1 July 2009)

IFRIC 18 provides guidance on accounting by recipients that receive from customers items of property, plant and equipment or cash for the acquisition or construction of such items, provided that these assets must then be used to connect customers to networks or to provide ongoing access to a supply of goods or services, or both. As the Group currently has no such transactions, the interpretation has had no impact on the financial position or results of operations of the Group.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

(n) In May 2008, the IASB issued its first Improvements to IFRSs which sets out amendments to a number of IFRSs. Except for the amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary* which are effective for annual periods beginning on or after 1 July 2009, the Group adopted all the amendments from 1 January 2009. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact to the Group. Details of the key amendments most applicable to the Group are as follows:

IFRS 7 *Financial Instruments: Disclosures*: Removes the reference to "total interest income" as a component of finance costs.

IAS 1 *Presentation of Financial Statements*: Clarifies that assets and liabilities which are classified as held for trading in accordance with IAS 39 are not automatically classified as current in the statement of financial position.

IAS 16 *Property, Plant and Equipment*: Replaces the term "net selling price" with "fair value less costs to sell" and the recoverable amount of property, plant and equipment is the higher of an asset's fair value less costs to sell and its value in use.

In addition, items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental are transferred to inventories when rental ceases and they are held for sale.

IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance*: Requires government loans granted in the future with no or at a below-market rate of interest to be recognised and measured in accordance with IAS 39 and the benefit of the reduced interest to be accounted for as a government grant.

IAS 27 *Consolidated and Separate Financial Statements*: Requires that when a parent entity accounts for a subsidiary at fair value in accordance with IAS 39 in its separate financial statements, this treatment continues when the subsidiary is subsequently classified as held for sale.

IAS 28 *Investments in Associates*: Clarifies that an investment in an associate is a single asset for the purpose of conducting the impairment test and that no impairment is separately allocated to goodwill included in the investment balance.

IAS 36 *Impairment of Assets*: When discounted cash flows are used to estimate "fair value less costs to sell", additional disclosures (e.g., discount rate and growth rate used) are required which are consistent with the disclosures required when the discounted cash flows are used to estimate "value in use".

IAS 38 *Intangible Assets*: Expenditure on advertising and promotional activities is recognised as an expense when the Group either has the right to access the goods or has received the service.

The reference to there being rarely, if ever, persuasive evidence to support an amortisation method for intangible assets other than the straight-line method has been removed. The Group has reassessed the useful lives of its intangible assets and concluded that the straight-line method is still appropriate.

2.3 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 (Revised)	*First-time Adoption of International Financial Reporting Standards*[1]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*[2]
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*[2]
IFRS 3 (Revised)	*Business Combinations*[1]
IFRS 9	*Financial Instruments*[6]
IAS 24 (Revised)	*Related Party Disclosures*[5]
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*[1]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues*[3]
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*[1]
IFRIC 14 Amendments	Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*[5]
IFRIC 17	*Distributions of Non-cash Assets to Owners*[1]
IFRIC 19	*Extinguishing Financial Liabilities with Equity Instruments*[4]
Amendments to IFRS 5 included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to Sell the Controlling Interest in a Subsidiary*[1]

Apart from the above, the IASB has issued *Improvements to IFRSs 2009* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 2, IAS 38, IFRIC 9 and IFRIC 16 are effective for annual periods beginning on or after 1 July 2009 while the amendments to IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 36 and IAS 39 are effective for annual periods beginning on or after 1 January 2010 although there are separate transitional provisions for each standard or interpretation.

1 Effective for annual periods beginning on or after 1 July 2009
2 Effective for annual periods beginning on or after 1 January 2010
3 Effective for annual periods beginning on or after 1 February 2010
4 Effective for annual periods beginning on or after 1 July 2010
5 Effective for annual periods beginning on or after 1 January 2011
6 Effective for annual periods beginning on or after 1 January 2013

The Group is in the process of making an assessment of the impact of these new and revised IFRSs upon initial application. So far, the Group considers that except for 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 profit or loss 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.

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 statement of financial position 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 profit or loss 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. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The results of jointly-controlled entities are included in the Company's profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of financial position 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 profit or loss 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 and is not individually tested for impairment.

The results of associates are included in the Company's profit or loss 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.

Goodwill

Goodwill arising on the acquisition of subsidiaries, associates and jointly-controlled entities 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 statement of financial position as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses. In the case of associates and jointly-controlled entities, goodwill is included in the carrying amount thereof, rather than as a separately identified asset in the consolidated statement of financial position.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 profit or loss.

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.

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 and goodwill), 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 profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period 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 profit or loss 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, 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 profit or losss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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 financial year end.

An item of property, plant and equipment and any significant part initially recognised 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 profit or loss 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)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 financial year end.

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 profit or loss 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.

Leases

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 profit or loss 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 profit or loss 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial assets, as appropriate. The Group determines the classification of its financial assets at initial recognition. 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.

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.

The Group's financial assets include cash and bank balances, trade and other receivables, bills receivable, loans receivable, quoted and unquoted financial instruments, and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

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. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in the profit or loss. These net fair value changes do 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.

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the profit or loss. 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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance income in the profit or loss. The loss arising from impairment is recognised in the profit or loss in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment valuation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the profit or loss in other income, or until the investment is determined to be impaired, at which time the cumulative gain or loss is recognised in the profit or loss and removed from the available-for-sale investment valuation reserve. Interest and dividends earned are reported as interest income and dividend income, respectively and are recognised in the profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

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.

The Group evaluates its available-for-sale financial assets whether the ability and intention to sell them in the near term are still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management’s intent to do so significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial assets meet the definition of loans and receivables and the Group has the intent and ability to hold these assets for the foreseeable future or to maturity. The reclassification to the held-to-maturity category is permitted only when the entity has the ability and intent to hold until the maturity date of the financial asset.

For a financial asset reclassified out of the available-for-sale category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the profit or loss.

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 when:

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, 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. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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.

Impairment of financial assets

The Group assesses at the end of each reporting period date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss 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 yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. 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 estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred 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, 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 investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

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 profit or loss, is removed from other comprehensive income and recognised in the profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, plus directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, bills payable, an amount due to the ultimate holding company and interest-bearing loans and borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the profit or loss when the liabilities are derecognised as well as through the effective interest rate method amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

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 profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only if, there is currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate 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 and a discounted cash flow analysis.

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments such as forward currency contracts to hedge its foreign currency risk. 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 of derivatives are taken directly to the profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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.

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 of changes in the hedging instrument's fair value 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges

The change in the fair value of an interest rate hedging derivative is recognised in the profit or loss in finance costs. 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 profit or loss in finance costs.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the profit or loss over the remaining term to maturity.

Effective interest rate 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 profit or loss.

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 profit or loss. The changes in the fair value of the hedging instrument are also recognised in the profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the profit or loss in finance costs.

Amounts recognised in other comprehensive income are transferred to the profit or loss when the hedged transaction affects profit or loss, 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 recognised in other comprehensive income 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 cumulative gain or loss previously recognised in equity are transferred to the profit or loss. 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 other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment affects profit or loss.

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 in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in the profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to the profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated and effective hedging instruments are classified as current or non-current or separated into a current or non-current potion based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group will hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistent with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

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 statement of cash flows, 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 statement of financial position, 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 end of the reporting period 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 profit or loss.

Provisions for product warranties granted by the Group on its 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 relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period 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 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, associates and interests in joint ventures, 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, associates and interests in joint ventures, 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 the end of each reporting period 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. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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 by the end of the reporting period.

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 profit or loss over the expected useful life of the relevant asset by equal annual instalments.

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 exactly 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 profit or loss 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 expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the statement of financial position, 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 recorded by the entities in the Group are initially recorded using their respective 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 end of the reporting period. 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 end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their profit or loss are translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

For the purpose of the consolidated statement of cash flows, 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

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of each reporting period, 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 the end of each reporting period and makes provision for obsolete and slow-moving inventory items identified that are no longer suitable for use or 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 the end of each reporting period. The carrying amount of inventories as at 31 December 2009 was RMB888,925,000 (2008: RMB523,293,000). 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 2009 was RMB52,874,000 (2008: RMB47,743,000). 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 judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at the end of each reporting period. The carrying amount of trade receivables as at 31 December 2009 was RMB742,255,000 (2008: RMB711,544,000). 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 2009, the carrying amount of deferred tax assets was RMB20,828,000 (2008: RMB12,630,000). More details are given in note 34 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2009, the carrying amount of deferred development costs was RMB49,971,000 (2008: RMB47,003,000). More details are given in note 17 to the financial statements.

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. As at 31 December 2009, the carrying amount of property, plant and equipment was RMB1,312,741,000 (2008: RMB933,250,000). More details are given in note 14 to the financial statements.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group's operating activities are attributable to a single operating segment, focusing on manufacture and sale of electrical systems and components relating to locomotive and rolling stock. Therefore, no analysis by operating segment is presented.

Geographical information

(a) Revenue from external customers

	2009 RMB'000	2008 RMB'000
Mainland China (place of domicile)	**2,983,437**	1,947,599
Overseas	**342,156**	171,724
	3,325,593	2,119,323

The revenue information above is based on the location of the customers.

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information(continued)

(b) Non-current assets

	2009 RMB'000	2008 RMB'000
Mainland China (place of domicile)	**1,484,319**	1,134,820
Overseas	**195,340**	107,898
	1,679,659	1,242,718

The non-current asset information above is based on the location of assets and excludes financial instruments and deferred tax assets.

Information about major customers

Revenue generated from the three major customers for the year ended 31 December 2009 were RMB1,681,455,000, RMB360,529,000 and RMB341,356,000, respectively (2008: RMB882,786,000, RMB286,729,000 and RMB260,399,000).

5. REVENUE, OTHER INCOME AND GAINS

Revenue on sale of goods

Revenue represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sale taxes.

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

	Notes	2009 RMB'000	2008 RMB'000
Revenue:			
Sale of goods		**3,325,593**	2,119,323
Other income and gains:			
Bank interest income		**15,770**	18,275
Profit from sale of scrap materials		**1,069**	870
Investment income from financial instruments		**3,090**	31,205
Gross rental income		**6,069**	5,281
Exchange gains, net		**—**	21,002
Value-added tax refund	(i)	**33,600**	20,897
Technical service income		**6,500**	2,945
Government grants	(ii)	**18,559**	17,965
Others		**4,021**	992
Total		**88,678**	119,432

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 2009 and 2008.

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

	Notes	**2009** **RMB'000**	2008 RMB'000
Cost of inventories sold		**2,118,287**	1,332,142
Staff costs (including directors' and supervisors' remuneration)	(i)	**363,762**	248,840
Auditors' remuneration		**5,700**	5,780
Depreciation of items of property, plant and equipment	14	**76,578**	59,976
Amortisation of prepaid land lease prepayments	15	**1,753**	1,564
Amortisation of other intangible assets	17	**10,772**	3,514
Minimum lease payments under operating leases in respect of:			
Land and buildings		**6,731**	8,842
Plant and equipment		**1,723**	872
Provision for obsolete inventories		**23,511**	10,398
Exchange (gains)/losses		**2,581**	(21,002)
Research and development costs		**174,998**	127,413
Less: staff costs included above		**(82,757)**	(34,528)
development costs capitalised	17	**(6,136)**	(47,003)
Research and development costs net of staff costs and development costs capitalised		**86,105**	45,882
Loss on disposal of items of property, plant and equipment		**1,509**	1,358
Impairment of trade and other receivables		**5,873**	3,560
Impairment of items of property, plant and equipment		**213**	—
Provision for warranties		**80,275**	37,071
Bank interest income		**(15,770)**	(18,275)
Gross rental income		**(6,069)**	(5,281)

6. PROFIT BEFORE TAX(continued)

(i) Staff costs

	2009 RMB'000	2008 RMB'000
Wages, salaries and bonuses	**262,405**	171,996
Contribution to government-operated pension schemes	**22,731**	20,120
Contribution to a pension annuity plan	**6,779**	5,323
Welfare and other expenses	**71,847**	51,401
Total	**363,762**	248,840

In 2006, the Group implemented an employee pension annuity plan. Pursuant to 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

	2009 RMB'000	2008 RMB'000
Interest paid on bank and other borrowings	**8,013**	959

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 Hong Kong Companies Ordinance, are as follows:

	2009 RMB'000	2008 RMB'000
Fees	**—**	—
Other emoluments:		
Salaries, allowances and benefits in kind	**2,055**	1,467
Performance related bonuses	**191**	630
Pension scheme contributions	**33**	68
Total	**2,279**	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 2009 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	—	97	—	—	97
Mr. Lu Penghu	—	573	20	11	604
Non-executive directors:					
Mr. Song Yali	—	72	—	—	72
Mr. Liao Bin	—	38	—	—	38
Mr. Deng Huijin	—	23	—	—	23
Mr. Ma Yunkun	—	55	—	—	55
Independent non-executive directors:					
Mr. Gao Yucai	—	65	—	—	65
Mr. Chan Kam Wing, Clement	—	196	—	—	196
Mr. Pao Ping Wing	—	196	—	—	196
Mr. Tan Xiao'ao	—	65	—	—	65
Ms. Liu Chunru	—	65	—	—	65
	—	1,445	20	11	1,476
Supervisors:					
Mr. Zhang Liqiang	—	48	—	—	48
Mr. Pang Yiming	—	208	70	11	289
Mr. Liu Ke'an	—	224	101	11	336
Mr. Shuai Tianlong	—	65	—	—	65
Ms. Wang Kun	—	65	—	—	65
	—	610	171	22	803
Total	—	2,055	191	33	2,279

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

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

9. FIVE HIGHEST PAID EMPLOYEES

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

	The Group	
	2009	2008
Director and supervisor	**1**	1
Non-director and non-supervisor employees	**4**	4
	5	5

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

	The Group	
	2009	2008
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,453**	1,190
Performance related bonuses	**541**	1,193
Pension scheme contributions	**32**	105
	2,026	2,488

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

	2009	2008
Nil to RMB1,000,000	**4**	4

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 employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

Pursuant to the relevant laws and regulations in the PRC, the statutory corporate income tax rates of 15% to 25% were applied to the Company and PRC subsidiaries for the years ended 31 December 2009 and 2008.

Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

	2009 RMB'000	2008 RMB'000
Current income tax - PRC corporate income tax	96,843	79,179
Deferred (note 34)	(7,007)	(5,674)
Income tax charge for the year	89,836	73,505

A reconciliation of the tax expense applicable to profit before tax at the statutory rate in the PRC to the tax expense at the effective tax rate is as follows:

	2009		2008	
	RMB'000	%	RMB'000	%
Profit before tax	624,225		496,842	
Tax at the statutory tax rate	156,056	25.0	124,211	25.0
Reconciling items:				
Profits and losses attributable to a jointly-controlled entity and associates	(3,917)	(0.6)	(2,009)	(0.4)
Expenses not deductible for tax	12,603	2.0	7,325	1.5
Income not subject to tax	(8,683)	(1.4)	(3,996)	(0.8)
Entities subject to lower statutory tax rates	(59,141)	(9.5)	(47,771)	(9.6)
Tax losses not recognised	2,200	0.4	1,319	0.3
Others*	(9,282)	(1.5)	(5,574)	(1.1)
Total tax charge for the year	89,836	14.4	73,505	14.9

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

The share of tax attributable to a jointly-controlled entity and associates amounting to RMB1,882,000 (2008: RMB1,187,000) is included in "Share of profit and loss of a jointly-controlled entity and associates" on the face of the consolidated statement of comprehensive income.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2009 includes a profit of RMB509,951,000 (2008: RMB356,570,000), which has been dealt with in the financial statements of the Company (note 36(b)).

12. DIVIDENDS

	2009 RMB'000	2008 RMB'000
Proposed final – RMB0.195 (2008: RMB0.155) per ordinary share	211,430	168,060
	211,430	168,060

The proposed final dividend for the year 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:

	2009 RMB'000	2008 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	530,881	422,300
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

The diluted earnings per share amounts are the same as the respective basic earnings per share amounts as no diluting events existed during the years ended 31 December 2009 and 2008.

14. PROPERTY, PLANT AND EQUIPMENT

The Group

	Note	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 2009						
At 31 December 2008 and at 1 January 2009:						
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
At 1 January 2009, net of accumulated depreciation and impairment		403,625	203,400	65,340	260,885	933,250
Additions		21,233	99,501	30,905	302,986	454,625
Disposals		(1,358)	(2,298)	(482)	—	(4,138)
Disposal of a subsidiary	37	—	(269)	(65)	—	(334)
Depreciation provided during the year		(17,537)	(39,233)	(19,808)	—	(76,578)
Impairment		—	(213)	—	—	(213)
Transfers		119,142	66,003	1,351	(186,496)	—
Exchange realignment		—	3,029	—	3,100	6,129
At 31 December 2009, net of accumulated depreciation and impairment		525,105	329,920	77,241	380,475	1,312,741
At 31 December 2009:						
Cost		625,349	519,652	144,039	380,475	1,669,515
Accumulated depreciation and impairment		(100,244)	(189,732)	(66,798)	—	(356,774)
Net carrying amount		525,105	329,920	77,241	380,475	1,312,741

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 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 a subsidiary	—	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 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 2009					
At 31 December 2008 and at 1 January 2009:					
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
At 1 January 2009, net of accumulated depreciation and impairment	262,100	160,031	47,813	252,396	722,340
Additions	3,354	89,429	21,773	213,727	328,283
Disposal	(672)	(1,917)	(188)	—	(2,777)
Depreciation provided during the year	(11,786)	(30,829)	(15,094)	—	(57,709)
Transfers	110,084	29,311	699	(140,094)	—
At 31 December 2009, net of accumulated depreciation and impairment	363,080	246,025	55,003	326,029	990,137
At 31 December 2009:					
Cost	436,758	385,266	109,576	326,029	1,257,629
Accumulated depreciation and impairment	(73,678)	(139,241)	(54,573)	—	(267,492)
Net carrying amount	363,080	246,025	55,003	326,029	990,137

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 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

As at 31 December 2009, certain items of property, plant and equipment of a subsidiary with a net book value of approximately RMB112,955,000 (2008: RMB36,419,000) were first charged to a bank for securing general banking facilities granted to the Group (note 32).

15. PREPAID LAND LEASE PAYMENTS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**73,937**	75,501	**50,973**	52,017
Additions	**30,306**	—	**—**	—
Amortisation provided during the year	**(1,753)**	(1,564)	**(1,042)**	(1,044)
Carrying amount at 31 December	**102,490**	73,937	**49,931**	50,973

The leasehold land is held under medium term leases and is situated in Mainland China.

16. GOODWILL

The Group

	RMB'000
At 1 January 2008:	
Cost	1,940
Accumulated impairment	—
Net carrying amount	1,940
Cost at 1 January 2008, net of accumulated impairment	1,940
Acquisition of a subsidiary	52,407
Impairment during the year	—
Exchange realignment	(6,604)
At 31 December 2008	47,743
At 31 December 2008:	
Cost	47,743
Accumulated impairment	—
Net carrying amount	47,743
Cost at 1 January 2009, net of accumulated impairment	**47,743**
Impairment during the year	**—**
Exchange realignment	**5,131**
Cost and carrying amount at 31 December 2009	**52,874**
At 31 December 2009:	
Cost	**52,874**
Accumulated impairment	**—**
Net carrying amount	**52,874**

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 five-year period 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 five-year 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 2009. 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 2009				
Cost at 1 January 2009, net of accumulated amortisation	**32,087**	**8,467**	**47,003**	**87,557**
Additions	**—**	**9,182**	**6,136**	**15,318**
Amortisation provided during the year	**(5,004)**	**(2,600)**	**(3,168)**	**(10,772)**
Exchange realignment	**2,567**	**—**	**—**	**2,567**
At 31 December 2009	**29,650**	**15,049**	**49,971**	**94,670**
At 31 December 2009:				
Cost	**44,639**	**22,527**	**53,139**	**120,305**
Accumulated amortisation	**(14,989)**	**(7,478)**	**(3,168)**	**(25,635)**
Net carrying amount	**29,650**	**15,049**	**49,971**	**94,670**
31 December 2008				
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
Cost at 1 January 2008, net of accumulated amortisation	8,122	7,503	—	15,625
Acquisition of a subsidiary	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 and at 1 January 2009:				
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

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 2009				
Cost at 1 January 2009, net of accumulated amortisation	6,470	8,127	41,327	55,924
Additions	—	9,182	6,136	15,318
Amortisation provided during the year	(3,145)	(410)	(2,551)	(6,106)
At 31 December 2009	3,325	16,899	44,912	65,136
At 31 December 2009:				
Cost	16,100	21,302	47,463	84,865
Accumulated amortisation	(12,775)	(4,403)	(2,551)	(19,729)
Net carrying amount	3,325	16,899	44,912	65,136
31 December 2008				
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
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 and at 1 January 2009:				
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

18. INTERESTS IN SUBSIDIARIES

	The Company	
	2009	2008
	RMB'000	RMB'000
Unlisted investments, at cost	**257,141**	170,568
Listed investments, at cost	**216,540**	107,317
Loan to a subsidiary	**—**	17,635
	473,681	295,520

The loan to a subsidiary included in the Company's non-current assets as at 31 December 2008 which amounted to RMB17,635,000 was denominated in Hong Kong dollars. The balance was fully repaid during the year ended 31 December 2009.

Particulars of the principal subsidiaries as at 31 December 2009 are as follows:

Name	Notes	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity interest attributable to the Company		Principal activities
				Direct	Indirect	
Ningbo CSR Times Sensor Technology Co., Ltd. ("Ningbo Company")		PRC/Mainland China	RMB48,826,200	100	—	Manufacture and sale of sensors and vacuum sanitary units
Zhuzhou Times Electronics Technology Co., Ltd. ("Times Electronics")		PRC/Mainland China	RMB80,000,000	100	—	Manufacture and sale of electrical control systems for large railway maintenance vehicles
Zhuzhou Times Equipment Technology Co., Ltd. ("Times Equipment")	(i)	PRC/Mainland China	RMB36,000,000	100	—	Manufacture and sale of vibration absorber and testing equipment

18. INTERESTS IN SUBSIDIARIES (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/Mainland China	RMB29,000,000	100	—	Manufacture and sale of train operation safety equipment
Shenyang CSR Times Transportation Equipment Co., Ltd. ("Times Shenyang")		PRC/Mainland China	RMB3,000,000	100	—	Manufacture and sale of electric components for rail transit vehicles
Baoji CSR Times Engineering Machinery Co., Ltd. ("Times Baoji")	(ii)	PRC/Mainland China	RMB100,000,000	60	—	Manufacture and sale of large railway and urban rail work machines and vehicles
Dynex Power Inc. ("Dynex Power")	(iii)	Canada	CAD37,041,524	75	—	Investment holding
Dynex Semiconductor Limited ("Dynex Semiconductor")		United Kingdom	GBP15,000,000	—	75	Manufacture and sale of power semiconductors and integrated circuit products

Notes:

(i) In May 2009, the Company made a capital contribution of RMB25,000,000 to Times Equipment.

(ii) In March 2009, the Company made a capital contribution of RMB60,000,000 to a newly established subsidiary, Times Baoji, for the 60% equity interest therein. Hence Times Baoji became a subsidiary of the Company thereafter.

(iii) On 31 December 2009, Dynex Power completed the issue of 40,195,714 new shares at the issue price of CAD0.56 per share, and the Company subscribed for 75% of such new shares issued by Dynex Power. The percentage of equity interest attributable to the Company in Dynex Power remained unchanged.

All the above subsidiaries established in PRC are limited liability companies.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTEREST/INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**—**	—	**63,515**	63,515
Share of net assets	**97,091**	81,325	**—**	—
	97,091	81,325	**63,515**	63,515

Particulars of the jointly-controlled entity as at 31 December 2009 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
Zhuzhou Shiling Transportation Equipment Co., Ltd. ("Zhuhzou Shiling")	PRC/ Mainland China	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:

	2009	2008
	RMB'000	RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Non-current assets	**28,719**	30,658
Current assets	**77,695**	62,484
Non-current liabilities	**—**	—
Current liabilities	**(9,323)**	(11,817)
Net assets	**97,091**	81,325
Share of the jointly-controlled entity's results:		
Revenue	**76,798**	74,620
Other income	**1,551**	41
	78,349	74,661
Total expenses	**(60,700)**	(65,165)
Tax	**(1,882)**	(1,187)
Profit after tax	**15,767**	8,309

20. INTERESTS/INVESTMENTS IN ASSOCIATES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted equity investments, at cost	**—**	—	**19,180**	19,180
Share of net assets	**18,345**	17,458	**—**	—
Goodwill on acquisition	**1,448**	1,448	**—**	—
	19,793	18,906	**19,180**	19,180

Particulars of the associates as at 31 December 2009 are as follows:

Name	Place of 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
Siemens Traction Equipment Ltd., Zhuzhou ("Zhuzhou Siemens")	PRC/ Mainland China	RMB128,989,000	30	—	Manufacture and sale of electric components for electric locomotives
Zhuzhou Times Zhuoyue Automotive Electronics Technology Co., Ltd. ("Times Zhuoyue")	PRC/ Mainland China	RMB5,000,000	—	40	Manufacture and sale of automotive electronic products and computer control software

20. INTERESTS/INVESTMENTS IN ASSOCIATES (continued)

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

	2009 RMB'000	2008 RMB'000
Share of the associates' assets and liabilities:		
Non-current assets	**6,668**	399
Current assets	**88,499**	60,114
Non-current liabilities	**(18)**	—
Current liabilities	**(76,804)**	(43,055)
Net assets	**18,345**	17,458
Share of the associates' results:		
Revenue	**41,336**	2,360
Other income	**7**	13
	41,343	2,373
Total expenses	**(41,440)**	(2,647)
Tax	**—**	—
Loss	**(97)**	(274)

21. AVAILABLE-FOR-SALE INVESTMENTS

	The Group	
	2009 RMB'000	2008 RMB'000
At cost:		
Unlisted equity investments	**400**	400

22. INVENTORIES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**343,558**	266,324	**271,400**	208,084
Work in progress	**211,072**	113,980	**164,534**	82,165
Finished goods	**332,339**	141,780	**309,383**	121,669
Consumables and packing materials	**1,956**	1,209	**1,824**	683
	888,925	523,293	**747,141**	412,601

As at 31 December 2009, certain inventories of a subsidiary with a net book value of approximately RMB57,527,000 (2008: RMB47,039,000) were first charged to a bank for securing the general banking facilities granted to the Group (note 32).

23. TRADE RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**778,008**	746,537	**564,776**	591,966
Impairment	**(35,753)**	(34,993)	**(30,735)**	(30,134)
	742,255	711,544	**534,041**	561,832

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 end of the reporting period, based on the invoice date and net of provision for impairment of receivables, is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 1 year	**711,169**	662,131	**508,573**	519,568
Over 1 year but within 2 years	**27,710**	38,268	**22,750**	31,814
Over 2 years but within 3 years	**3,376**	11,145	**2,718**	10,450
Over 3 years	**—**	—	**—**	—
	742,255	711,544	**534,041**	561,832

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**34,993**	45,305	**30,134**	33,469
Impairment losses recognised	**6,138**	9,533	**5,404**	8,377
Amount written off as uncollectible	**(2,411)**	(13,253)	**(1,711)**	(8,689)
Impairment losses reversed	**(4,433)**	(6,897)	**(3,092)**	(3,023)
Acquisition of a subsidiary	**—**	305	**—**	—
Exchange realignment	**1,466**	—	**—**	—
	35,753	34,993	**30,735**	30,134

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB6,740,000 (2008: RMB6,899,000) with a carrying amount before provision of RMB6,740,000 (2008: RMB6,899,000). The Group does not hold collateral or other credit enhancements over these balances.

23. TRADE RECEIVABLES (continued)

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**625,402**	614,936	**430,803**	468,765
Less than 6 months past due	**—**	—	**—**	—
6 months to 1 year past due	**—**	—	**—**	—
	625,402	614,936	**430,803**	468,765

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.

The amount due from the related parties of the Group included in the trade receivables can be analysed as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables from:				
CSRG and its subsidiaries				
(other than the Group)	**174,308**	212,047	**172,082**	190,914
Subsidiaries	**—**	—	**8,433**	19,576
Jointly-controlled entity	**111**	908	**49**	800
	174,419	212,955	**180,564**	211,290

As at 31 December 2009, certain trade receivables of a subsidiary with a net book value of approximately RMB38,309,000 (2008: RMB30,189,000) were first charged to a bank for securing 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 similar credit terms to those offered to the major customers of the Group and the Company.

24. BILLS RECEIVABLE

The maturity profiles of the bills receivable of the Group and the Company as at the end of the reporting period are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**55,599**	7,115	**15,520**	64,815
Over 3 months but within 6 months	**635,591**	320,822	**598,515**	234,772
	691,190	327,937	**614,035**	299,587

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments, deposits and other receivables:				
CSRG and its subsidiaries (other than the Group)	**7,676**	9,870	**7,676**	9,850
Subsidiaries	**—**	—	**150,846**	93,148
Associates	**2,858**	—	**2,858**	—
Third parties	**199,547**	440,646	**167,906**	419,731
	210,081	450,516	**329,286**	522,729

The amounts due from the associates, 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 were investments in short term maturity financial instruments with principal repayment guaranteed by banks aggregating to RMB300 million, which were fully repaid during the year ended 31 December 2009.

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Deposits and investments with embedded derivatives	**—**	100,000	**—**	100,000

The entire deposits and investments including the related embedded derivatives were accounted for as financial assets designated at fair value through profit or loss and these deposits and investments were repaid during the year ended 31 December 2009.

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

		The Group		The Company	
		2009	2008	**2009**	2008
	Note	**RMB'000**	RMB'000	**RMB'000**	RMB'000
Cash and bank balances		**1,048,434**	740,084	**710,735**	659,263
Time deposits		**118,939**	60,000	**81,790**	—
		1,167,373	800,084	**792,525**	659,263
Less: Pledged deposits against banking facilities	32	**(28,811)**	(3,362)	**(21,790)**	—
Cash and cash equivalents in the statements of financial position		**1,138,562**	796,722	**770,735**	659,263
Less: Non-pledged time deposits with original maturity of three months or more when acquired		**(90,128)**	(60,000)		
Cash and cash equivalents in the consolidated statement of cash flows		**1,048,434**	736,722		
Cash and bank balances and time deposits denominated in:					
– RMB		**983,618**	721,254	**762,512**	585,816
– Canadian dollar		**116,654**	58	**—**	—
– Hong Kong dollar		**24,376**	7,578	**24,376**	7,578
– United States dollar		**12,150**	11,057	**5,599**	6,636
– Great British pound		**30,117**	794	**—**	—
– European currency unit		**454**	11,969	**34**	11,859
– Japanese yen		**4**	47,374	**4**	47,374
		1,167,373	800,084	**792,525**	659,263

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 one year, 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.

As at 31 December 2009, certain bank balances of a subsidiary with a net book value of approximately RMB148,759,000 (2008: RMB2,257,000) were first charged to a bank for securing the general banking facilities granted to the Group (note 32).

28. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**541,086**	333,479	**560,734**	351,075
Over 3 months but within 1 year	**153,077**	30,802	**65,726**	39,638
Over 1 year but within 2 years	**22,562**	3,821	**20,905**	4,794
Over 2 years but within 3 years	**872**	408	**933**	248
Over 3 years	**784**	1,848	**634**	604
	718,381	370,358	**648,932**	396,359

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade payables to:				
CSRG and its subsidiaries				
(other than the Group)	**27,758**	21,372	**27,739**	14,139
Subsidiaries	**—**	—	**60,267**	102,167
Jointly-controlled entity	**63,176**	55,115	**63,176**	55,115
Third parties	**627,447**	293,871	**497,750**	224,938
	718,381	370,358	**648,932**	396,359

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 similar credit terms to those offered by major suppliers of the Group and the Company. 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 end of the reporting period are as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**75,726**	18,017	**75,726**	18,017
Over 3 months but within 6 months	**87,054**	28,217	**66,290**	30,277
	162,780	46,234	**142,016**	48,294

30. OTHER PAYABLES AND ACCRUALS

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receipts in advance	**208,830**	111,742	**180,209**	107,036
Other payables	**65,314**	34,458	**43,421**	16,357
Accruals	**34,757**	39,405	**16,624**	17,951
Amounts due to CSRG and its subsidiaries (other than the Group)	**13,377**	8,322	**13,377**	7,181
Subsidiaries	**—**	—	**51,779**	110
	322,278	193,927	**305,410**	148,635

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	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
At beginning of year	**51,573**	45,646	**40,266**	35,461
Provision made during the year	**80,275**	37,071	**77,415**	33,690
Amounts utilised	**(38,488)**	(31,144)	**(36,313)**	(28,885)
At end of year	**93,360**	51,573	**81,368**	40,266

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

	2009			2008		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	**1.86 - 7.20**	**2010**	**105,518**	4.99 - 7.96	2009	19,812
Bank loans – unsecured	**2.25**	**2010**	**14,381**			—
Current portion of long-term:						
bank loans – secured	**4.74 - 6.56**	**2010**	**737**	4.74 - 6.56	2009	637
other borrowings – unsecured	**Interest-free**	**2010**	**164**	Interest-free	2009	254
			120,800			20,703
Non-current						
Bank loans – secured	**4.74 - 6.56**	**2011 - 2015**	**3,326**	4.74 - 6.56	2010 - 2015	3,584
Other borrowings – unsecured	**Interest-free**	**2011**	**4**	Interest-free	2010 - 2011	152
			3,330			3,736
			124,130			24,439

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

The Company

	2009			2008		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	2.25	2010	14,381	—	—	—
			14,381			—

	The Group		The Company	
	2009 RMB'000	2008 RMB'000	2009 RMB'000	2008 RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	120,636	20,449	14,381	—
In the second year	826	631	—	—
In the third to fifth years, inclusive	2,275	2,286	—	—
Beyond five years	225	667	—	—
	123,962	24,033	14,381	—
Other borrowings repayable:				
Within one year or on demand	164	254	—	—
In the second year	4	138	—	—
In the third to fifth years, inclusive	—	14	—	—
Beyond five years	—	—	—	—
	168	406	—	—
	124,130	24,439	14,381	—

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

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest-bearing bank and other borrowings denominated in:				
Great British pound	**96,021**	11,247	**—**	—
European currency unit	**9,935**	6,924	**—**	—
United states dollar	**3,793**	6,268	**—**	—
Japanese yen	**14,381**	—	**14,381**	—
Total	**124,130**	24,439	**14,381**	—

Notes:

Certain of the Group's banks loans and the banking facilities are secured by:

(i) the pledge of certain of the Group's time deposits amounting to RMB28,811,000 (2008: RMB3,362,000); and

(ii) first charge on a subsidiary's property, plant and equipment, inventories, cash and trade receivables with an aggregate net carrying value of RMB357,550,000 (2008: RMB115,904,000).

The carrying amounts of the Group's current 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	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Current portion	**4,656**	6,916	**4,656**	6,746
Long-term portion	**37,242**	27,000	**27,000**	27,000
	41,898	33,916	**31,656**	33,746

The movements of the government grants are analysed as follows:

	The Group	The Company
	RMB'000	RMB'000
31 December 2009		
At 1 January 2009	**33,916**	**33,746**
Entitled during the year	**26,541**	**9,934**
Recognised as other income during the year	**(18,559)**	**(12,024)**
At 31 December 2009	**41,898**	**31,656**
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 and at 1 January 2009	33,916	33,746

34. DEFERRED TAX

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

The Group

	2009 Government grants RMB'000	2009 Warranty claim provision RMB'000	2009 Total RMB'000	2008 Government grants RMB'000	2008 Warranty claim provision RMB'000	2008 Total RMB'000
At 1 January	4,990	7,640	12,630	—	6,956	6,956
Deferred tax credited to the profit or loss during the year (note 10)	1,834	6,364	8,198	4,990	684	5,674
At 31 December	6,824	14,004	20,828	4,990	7,640	12,630

The Company

	2009 Government grants RMB'000	2009 Warranty claim provision RMB'000	2009 Total RMB'000	2008 Government grants RMB'000	2008 Warranty claim provision RMB'000	2008 Total RMB'000
At 1 January	4,964	5,981	10,945	—	5,593	5,593
Deferred tax credited/(charged) to the profit or loss during the year	(605)	6,224	5,619	4,964	388	5,352
At 31 December	4,359	12,205	16,564	4,964	5,981	10,945

34. DEFERRED TAX (continued)

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

The Group

	2009 Depreciation allowance in excess of related depreciation RMB'000	2009 Fair value adjustments arising from acquisition of subsidiaries RMB'000	2009 Total RMB'000	2008 Depreciation allowance in excess of related depreciation RMB'000	2008 Fair value adjustments arising from acquisition of subsidiaries RMB'000	2008 Total RMB'000
At 1 January	–	8,876	8,876	—	—	—
Acquisition of subsidiaries	–	–	–	—	10,155	10,155
Deferred tax charged/(credited) to the profit or loss during the year (note 10)	2,469	(1,278)	1,191	—	—	—
Exchange realignment	–	894	894	—	(1,279)	(1,279)
At 31 December	2,469	8,492	10,961	—	8,876	8,876

35. SHARE CAPITAL

	2009 RMB'000	2008 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 2009 and 2008.

36. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current and prior years 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	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
1 January 2008		1,486,348	52,287	109,294	157,217	1,805,146
Total comprehensive income for the year		—	—	356,570	—	356,570
Final 2007 dividend declared		—	—	217	(157,217)	(157,000)
Transfer from retained profits		—	35,405	(35,405)	—	—
Proposed final 2008 dividend	12	—	—	(168,060)	168,060	—
At 31 December 2008 and 1 January 2009		**1,486,348***	**87,692***	**262,616***	**168,060**	**2,004,716**
Total comprehensive income for the year		**—**	**—**	**509,951**	**—**	**509,951**
Final 2008 dividend declared		**—**	**—**	**(197)**	**(168,060)**	**(168,257)**
Transfer from retained profits		**—**	**52,115**	**(52,115)**	**—**	**—**
Proposed final 2009 dividend	12	**—**	**—**	**(211,430)**	**211,430**	**—**
At 31 December 2009		**1,486,348***	**139,807***	**508,825***	**211,430**	**2,346,410**

* These reserve accounts comprise the reserves of RMB2,134,980,000 (2008: RMB1,836,656,000) in the Company's statement of financial position.

Notes:

In accordance with the articles of association of the Company, 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.

36. RESERVES (continued)

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.

During the year, the directors of the Company approved the appropriation of RMB52,115,000 (2008: RMB35,405,000) to the statutory common reserve fund, which represented 10% of the net profit of the Company for the year ended 31 December 2009, 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. DISPOSAL OF A SUBSIDIARY

On 31 December 2009, the Group has agreed with other shareholders of Times Zhuoyue that their voting rights in Times Zhuoyue will no longer be conferred to the Group. Hence the Group has lost control over Times Zhuoyue and Times Zhuoyue was changed from a subsidiary to an associate of the Group at 31 December 2009, which is accounted for as a disposal of subsidiary as below:

	Note	2009 RMB'000
Net assets disposed of:		
Property, plant and equipment	14	334
Cash and bank balances		1,130
Trade receivables		737
Inventory		374
Prepayments and other receivables		68
Trade payables		(171)
Other payables and accruals		(12)
Minority interests		(1,476)
		984
Satisfied by:		
Interests in associates		984

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of a subsidiary is as follows:

	2009 RMB'000
Cash consideration	—
Cash and bank balances disposed of	(1,130)
Net outflow of cash and cash equivalents in respect of the disposal of a subsidiary	(1,130)

38. MAJOR NON-CASH TRANSACTION

During the year ended 31 December 2009, BaoJi CSR Times Engineering Machinery Co., Ltd. was established with a registered capital of RMB100,000,000, among which the Company contributed RMB60,000,000 in cash, while China Railway Bus Co., Ltd. contributed RMB8,049,000 in cash and RMB31,951,000 in forms of land and property, plant and equipment.

39. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Guarantees given to banks in connection with facilities granted to subsidiaries	**—**	—	**84,531**	—
	—	—	**84,531**	—

As at 31 December 2009, the above banking facilities guaranteed by the Company were utilised to the extent of approximately RMB80,299,000 (2008: Nil).

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 five years.

As at 31 December 2009, 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	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**4,927**	2,178	**3,607**	878
In the second to fifth years, inclusive	**15,183**	2,412	**14,100**	28
After five years	**—**	—	**—**	—
	20,110	4,590	**17,707**	906

40. OPERATING LEASE ARRANGEMENTS (continued)

(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 nine years.

As at 31 December 2009, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**5,844**	3,386	**586**	277
In the second to fifth years, inclusive	**15,259**	11,476	**249**	60
After five years	**11,750**	15,968	**—**	—
	32,853	30,830	**835**	337

41. COMMITMENTS

The Group and the Company had the following capital commitments at the end of the reporting period:

	The Group		The Company	
	2009	2008	**2009**	2008
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Purchase of items of property, plant and equipment	**234,745**	167,837	**150,987**	144,767
Purchase of items of other intangible assets	**106,453**	113,654	**106,453**	113,654
Total	**341,198**	281,491	**257,440**	258,421
Authorised, but not contracted for:				
Purchase of items of property, plant and equipment	**393,038**	263,179	**213,938**	252,609
Purchase of items of other intangible assets	**30,478**	4,436	**30,478**	4,436
Capital contribution to a subsidiary	**—**	—	**100,000**	15,000
Total	**423,516**	267,615	**344,416**	272,045

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	
	2009	2008
	RMB'000	RMB'000
Transactions with CSRG and its subsidiaries:		
Sales of goods	**1,687,955**	882,786
Purchases of materials and components	**181,192**	128,553
Sales of electricity	**1,251**	574
Fees paid for usage of property, plant and machinery	**742**	445
Rental income from items of property, plant and machinery	**3,207**	5,241
Transactions with a jointly-controlled entity:		
Sales of goods	**1,091**	832
Purchases of materials and components	**164,866**	147,694
Transactions with an associate:		
Rental income from items of property, plant and machinery	**2,690**	—

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.

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

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

	2009	2008
	RMB'000	RMB'000
Short-term employee benefits	**2,246**	2,097
Post-employment benefits	**33**	68
Total compensation paid to key management personnel	**2,279**	2,165

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

(iv) Other transactions with related parties:

In 2008, the Group acquired 17% and 12% equity interests of Zhuzhou Siemens from CSR ZELRI, a holding company of the Company and CSR Zhuzhou, a fellow subsidiary of CSR ZELRI, at the considerations of RMB10,869,000 and RMB7,672,000, respectively.

43. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

The Group

Financial assets	2009 Financial assets at fair value through profit or loss RMB'000	2009 Loans and receivables RMB'000	2009 Available-for-sale financial assets RMB'000	2009 Total RMB'000	2008 Financial assets at fair value through profit or loss RMB'000	2008 Loans and receivables RMB'000	2008 Available-for-sale financial assets RMB'000	2008 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	–	742,255	–	742,255	—	711,544	—	711,544
Bills receivable	–	691,190	–	691,190	—	327,937	—	327,937
Financial assets included in prepayments, deposits and other receivables	–	34,908	–	34,908	—	334,718	—	334,718
Pledged deposits	–	28,811	–	28,811	—	3,362	—	3,362
Cash and cash equivalents	–	1,138,562	–	1,138,562	—	796,722	—	796,722
	–	2,635,726	400	2,636,126	100,000	2,174,283	400	2,274,683

The Group

Financial liabilities	2009 Financial liabilities at amortised cost RMB'000	2008 Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	124,130	24,439
Trade payables	718,381	370,358
Bills payable	162,780	46,234
Financial liabilities included in other payables and accruals	73,194	57,037
	1,078,485	498,068

43. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

	The Company					
	2009			2008		
Financial assets	**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
Loan to a subsidiary	**—**	**—**	**—**	17,635	—	17,635
Financial assets at fair value through profit or loss	**—**	**—**	**—**	—	100,000	100,000
Trade receivables	**534,041**	**—**	**534,041**	561,832	—	561,832
Bills receivable	**614,035**	**—**	**614,035**	299,587	—	299,587
Financial assets included in prepayments, deposits and other receivables	**150,625**	**—**	**150,625**	419,216	—	419,216
Pledged deposits	**21,790**	**—**	**21,790**	—	—	—
Cash and cash equivalents	**770,735**	**—**	**770,735**	659,263	—	659,263
	2,091,226	**—**	**2,091,226**	1,957,533	100,000	2,057,533

	The Company	
	2009	2008
Financial liabilities	**Financial liabilities at amortised cost RMB'000**	Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	**14,381**	—
Trade payables	**648,932**	396,359
Bills payable	**142,016**	48,294
Financial liabilities included in other payables and accruals	**93,975**	28,323
	899,304	472,976

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 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 significant impact on the Group's equity.

	Increase/(decrease) in basis points	Increase/(decrease) in profit before tax	
		2009	2008
		RMB'000	RMB'000
Interest rates	100	**(1,055)**	(98)
Interest rates	(100)	**1,055**	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 Canadian dollar ("CAD") and Great British pound ("GBP"). 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 end of the reporting period to a reasonably possible change in the CAD and GBP 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	
	%	**2009**	2008
		RMB'000	RMB'000
If RMB strengthens against CAD	10	**(11,304)**	(4)
If RMB weakens against CAD	(10)	**11,304**	4

	Increase/ (decrease)	Increase/(decrease) in profit before tax	
	%	**2009**	2008
		RMB'000	RMB'000
If RMB strengthens against GBP	10	**7,903**	1,764
If RMB weakens against GBP	(10)	**(7,903)**	(1,764)

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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. At the end of the reporting period, the Group had certain concentrations of credit risk as 22% (2008: 29%) and 65% (2008: 71%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, within the operating segment.

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.

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 end of the reporting period, based on the contractual undiscounted payments, was as follows:

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Group

	2009				
	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	122,183	1,192	2,705	231	126,311
Trade payables	718,381	—	—	—	718,381
Bills payable	162,780	—	—	—	162,780
Other payables	73,194	—	—	—	73,194
	1,076,538	1,192	2,705	231	1,080,666

	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

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The Company

	2009				
	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	14,459	—	—	—	14,459
Trade payables	648,932	—	—	—	648,932
Bills payable	142,016	—	—	—	142,016
Other payables	93,975	—	—	—	93,975
Guarantees given to banks in connection with facilities granted to subsidiaries	80,299	—	—	—	80,299
	979,681	—	—	—	979,681

	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
Trade payables	396,359	—	—	—	396,359
Bills payable	48,294	—	—	—	48,294
Other payables	28,323	—	—	—	28,323
	472,976	—	—	—	472,976

44. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are 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 or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2009 and 31 December 2008.

The Group monitors capital using a gearing ratio, which is net debt/(assets) divided by capital plus net debt/(assets). Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The gearing ratios as at the ends of the reporting periods were as follows:

	The Group	
	2009	2008
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**124,130**	24,439
Trade payables	**718,381**	370,358
Bills payable	**162,780**	46,234
Other payables and accruals	**322,278**	193,927
Less: Cash and cash equivalents	**(1,138,562)**	(796,722)
Net debt/(assets)	**189,007**	(161,764)
Equity attributable to owners of the parent	**3,780,443**	3,409,121
Capital and net debt/(assets)	**3,969,450**	3,247,357
Gearing ratio	**5%**	(5%)

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 17 April 2010.

"Articles"	the Articles of Association of the Company
"Baoji Times"	寶鷄南車時代工程機械有限公司 (Baoji CSR Times Engineering Machinery Co. Ltd.), a 60% owned subsidiary of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Code on Corporate Governance Practices
"China Railway"	China Railway Group Limited, a joint stock limited liability company incorporated in the PRC whose A shares and H shares are listed on the Shanghai Stock Exchange and the main board of the Stock Exchange, respectively
"China Railway Bus"	中鐵寶工有限責任公司(China Railway Bus Co., Ltd.) holds 40% of the equity interests in Baoji Times, a wholly-owned subsidary of China Railway
"China Railway Group"	China Railway and its subsidiaries
"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 the Shanghai Stock Exchange and the main board of the 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"	中國南車集團公司 (CSR Group), formerly known as 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; the ultimate controlling shareholder of the Company
"CSRG Group"	CSRG and its subsidiaries (including the Parent Group but excluding the Group)
"CSR Investment & Leasing"	南車投資租賃有限公司(CSR Investment & Leasing Co., Ltd.), formerly known as 新力博交通裝備投資租賃有限公司(New Leap Transportation Equipment Investment & Leasing Co., Ltd.), a wholly-owned subsidiary of CSR, and one of the Promoters
"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 (CSR Sifang Locomotive & Rolling Stock Co., Ltd), held as to 97.17% 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 5.14% by the Parent Company, as to 94.35% by CSR (excluding the Parent Company); one of the Promoters

"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 wholly-owned subsidiary of 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 the 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 CSR 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 "CSR 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"	the promoters of the Company, being CSR 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 Qishuyan Locomotive & Rolling Stock Works), a wholly-owned subsidiary of CSRG and one of the Promoters

"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"	the financial year ended 31 December 2009
"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 63.60% by CSR 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 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.), held as to 40% by 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**	Ding Rogjun Tang Tuong Hock, Gabriel
3	**Joint company secretaries**	Lu Penghu Tang Tuong Hock, Gabriel
	Qualified accountant	Tang Tuong Hock, Gabriel
	Registered office	Times Road, Shifeng District, Zhuzhou, Hunan Province, PRC, 412001
	Telephone	+86 731 2849 8028
	Fax	+86 731 2849 3447
	Website	http://www.timeselectric.cn
	Principal place of business in Hong Kong	Unit 1106, 11th Floor, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong
4	**Listing information**	H Share The Stock Exchange of Hong Kong Limited Stock Code : 3898 Stock Short Name: CSR Times Electric
5	**H share registrar**	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
6	**Legal advisers**	Jones Day Grandall Legal Group
7	**Auditors**	Ernst & Young 18th Floor, Two International Finance Certre, 8 Finance Street, Central, Hong Kong