株洲南车时代电气股份有限公司

ZHUZHOU CSR TIMES ELECTRIC CO., LTD.

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

(Stock Code: 3898)

ANNUAL REPORT 2011

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Note:

1. The financial data in this Annual Report is prepared under PRC Accounting Standards;
2. This Annual Report is prepared in Chinese and English. If there is any difference between Chinese version and English version, the Chinese version shall prevail.

Financial Highlights

CONSOLIDATED INCOME STATEMENT HIGHLIGHTS

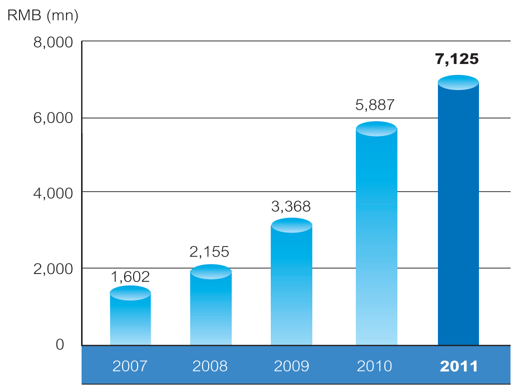
	Year Ended 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Revenue	**7,124,775**	5,886,854	3,367,726	2,154,840	1,602,098
Operating profit	**1,270,105**	958,659	564,292	459,316	293,743
Total profit	**1,380,922**	987,159	619,430	496,842	339,417
Net profit	**1,187,036**	852,062	529,594	423,337	341,982
Net profit attributable to shareholders of the Parent	**1,184,443**	850,528	526,087	422,300	341,894
Minority interests	**2,593**	1,534	3,507	1,037	88
Basic earnings per share (RMB Yuan/share)	**RMB1.09**	RMB0.78	RMB0.49	RMB0.39	RMB0.32

CONSOLIDATED BALANCE SHEET HIGHLIGHTS

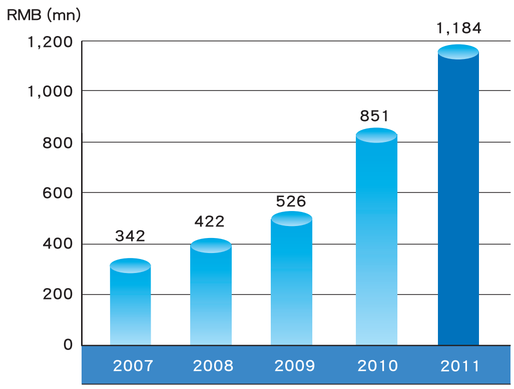
	As at 31 December				
	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000
Total assets	**8,654,179**	7,088,275	5,459,557	4,246,628	3,722,412
Total liabilities	**3,216,495**	2,518,512	1,512,301	745,527	487,529
Total shareholders' equity	**5,437,684**	4,569,763	3,947,256	3,501,101	3,234,883

Note: In accordance with the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" which was published by the Stock Exchange in December 2010 and the related amendments to the Listing Rules, upon approval by shareholders in the general meeting of the Company held on 13 December 2011, from this financial year, the Company decided to prepare the financial statements in accordance with PRC Accounting Standards for information disclosure at the Stock Exchange. The Company re-presented the relevant financial information for the year ended 2007 to 2010 in accordance with "Accounting Standards for Business Enterprises".

2007-2011 Growth in revenue



2007-2011 Growth in net profit attributable to shareholders of the Parent



Chairman's Report

Mr. Ding Rongjun, Chairman

Dear Shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31 December 2011. On behalf of the Board of Directors, I would like to express my sincere gratitude to all shareholders for your continual care and support.

PERFORMANCE REVIEW

The Group's revenue in 2011 amounted to RMB7,124.8 million (2010: RMB5,886.9 million), representing an increase of 21.0% year-on-year. Net profit attributable to shareholders of the Parent amounted to RMB1,184.4 million (2010: RMB850.5 million), representing an increase of 39.3% year-on-year. Basic earnings per share amounted to RMB1.09 (2010: RMB0.78), representing an increase of 39.7% year-on-year.

BUSINESS REVIEW

The year 2011 was the first year of the "Twelfth Five-year Plan" period, in which the situation was complicated and tempestuous, and full of severe challenges. However, the Company actively made an adjustment accordingly in response to short-term unfavourable situation. The Company closely focused on two themes, namely "industry breakthrough" and "lean management" and continued to achieve growth in both revenue and profit. The major business progress throughout the year is as follows:

A large number of locomotives and electric multiple units as two major core products were delivered to the customers and maintained stable operation, therefore became the major force of the national railway market in providing safety transportation. While contributing to a substantial portion of our revenue, the two major businesses also provided the support for the Company's continued value-added service industry.

The Company continued to receive a large amount of orders for traction system of urban rail. A breakthrough has been made in system integration, which laid foundation for the Company to tap into the large system integration of metro in the future, and won favourable opportunities for the Company to participate in the subway construction in each major metropolis.

The high-power semi-conductor industry accelerated the expansion. Self-developed IGBT modules passed small-batch loading assessment pending mass application. Six-inch thyristors first entered into the ±800 kV HVDC power transmission field.

In other industrial fields, the Company expanded production capacity and received more orders of the railway engineering machinery industry, the market share of the PRC railway signal industry continued to rise, the core technology industry progressed steadily, new strategic industry achieved smooth transition, and the value-added service industry was unique, the base construction in other cities of the PRC was proceeding in an orderly fashion.

The Company achieved great results in executive administration, technological innovation and system construction, including the first prize of national management innovation, Governor's Quality Award, Good Behaviour Standardised Enterprise at AAAA level to further enhance the levels of the Company's management.

OUTLOOK

The year 2012 is a more challenging year. Under the context of the progress in stability of the domestic economy development, reduced pace of the railway investment as well as the upheaval of the international economic situation, the Company remains optimistic about the future development. We can clearly witness that in view of the existing rigid demand in the PRC rail transport market, subway construction as the priority solution to solve the urban transportation problems with the long-cycle opportunity as well as the opportunities arising from independent innovation strongly advocated by the PRC. As such, we will be confident in enlarging and realising the industry scale development.

Chairman's Report

In the fields of locomotives and electric multiple units, in addition to maintaining the original product, the Company will focus on the products with our own systems for eight-axle 9,600 kW freight locomotive, six-axle 7,200kW passenger locomotive, HXD1C plateau locomotive, 4,400 HP diesel locomotive and CRH6 intercity high-speed electric multiple unit, and improve the comprehensive capability of professional overhaul and after-sale service.

In the field of urban metro industry, the Company will base on the metro traction system as a major line to enhance the competiveness advantage of system integration solution, thereby to make self-owned brands becoming the mainstream choice in the PRC market, and to seek the opportunity of marketing and promoting the relevant product lines.

In other industrial fields, the Company will develop new engineering machinery products and expand into the high-end fields gradually, grasp the new opportunity and actively expand the development in the railway signal market, focus on the key line of IGBT's complete industrial chain of "chip-module-converter" to enhance product core competitiveness, and strengthen the marketing of the key component industry including laminated busbars and sensors, as well as the extended industry of the core technology such as IGCT converters and intelligent transportation system.

Looking ahead, the Group is confident to face the adversity, seize the opportunities and develop steadily and to actively create greater value for its shareholders.

Ding Rongjun
Chairman of the Board
Changsha, Hunan, PRC
29 March 2012

安全裝備事業部

Safety Equipment Business Division

電力電子事業部

Power Electronics Business Division

寧波南車時代傳感技術有限公司

Ningbo CSR Times Sensor Technology Co., Ltd.

北京南車時代信息技術有限公司

Beijing CSR Times Information Technology Co., Ltd.

沈陽南車時代交通設備有限公司

Shenyang CSR Times Transportation Equipment Co., Ltd.

寶雞南車時代工程機械有限公司

Baoji CSR Times Engineering Machinery Co., Ltd.

丹尼克斯電力電子股份有限公司

Dynex Power Inc.

株洲時菱交通設備有限公司

Zhuzhou Shiling Transportation Equipment Co., Ltd.

株洲南車時代電氣
有股份限任公司

Zhuzhou CSR Times Electric
Co., Ltd.

印制電路事業部

Printed Circuit Business Division

株洲時代電子技術有限公司

Zhuzhou Times Electronics Co., Ltd.

株洲時代裝備技術
有限責任公司

Zhuzhou Times Equipment
Technology Co., Ltd.

昆明南車電氣設備有限公司

Kunming CSR Electric Equipment
Co., Ltd.

杭州南車電氣設備有限公司

Hangzhou CSR Electric Equipment
Co., Ltd.

廣州南車時代電氣技術
有限公司

Guangzhou CSR Times Electric
Technology Co., Ltd.

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

Revenue

	2011 (RMB million)	2010 (RMB million)
Train power converters, auxiliary power supply equipment and control systems	**5,246.7**	4,134.5
Including:		
Locomotives	**2,214.3**	2,350.7
Electric Multiple Units	**2,537.7**	1,471.5
Metropolitan rail transportation equipment	**494.7**	312.3
Train operation safety equipment	**439.9**	410.9
Railway maintenance vehicles related products	**597.2**	566.7
Train-borne electrical systems	**6,283.8**	5,112.1
Power semiconductor components	**498.7**	462.2
Sensors and related products	**107.7**	100.7
Other products	**234.6**	211.9
Electric components	**841.0**	774.8
Total revenue	**7,124.8**	5,886.9

The Group's revenue increased by RMB1,237.9 million or 21.0% from RMB5,886.9 million for the year ended 31 December 2010 to RMB7,124.8 million for the year ended 31 December 2011. In 2011, the Group recorded revenue of RMB234.6 million from other products, which mainly comprised of revenue from products such as busbar and PCB.

Except for the decrease in revenue from locomotives, fast growth was seen in revenue from various product categories of the Group in 2011. Among these, the Group recorded the strongest growth in revenue from Electric Multiple Units with an increase of RMB1,066.2 million. Such increase was mainly due to the delivery of electrical systems for 14M2T and 6M2T EMUs. The second strongest growth in revenue was recorded in metropolitan rail transportation equipment with an increase of RMB182.4 million, mainly due to the delivery of the Shenyang Metro No. 2 Line and Chongqing Metro No. 6 Line.

Cost of sales

The Group's cost of sales increased by 24.0% from RMB3,708.4 million for the year ended 31 December 2010 to RMB4,598.7 million for the year ended 31 December 2011. The increase in the cost of sales was mainly due to the combined effects of the growth in the Group's revenue and the change of sales mix.

Gross profit

The Group's gross profit increased by 16.0% from RMB2,178.5 million for the year ended 31 December 2010 to RMB2,526.1 million for the year ended 31 December 2011. The Group's gross profit margin decreased from 37.0% for the year ended 31 December 2010 to 35.5% for the year ended 31 December 2011. The change in gross profit margin was mainly due to the change of sales mix.

Selling expenses

Selling expenses of the Group increased from RMB345.7 million for the year ended 31 December 2010 (representing 5.9% of the Group's revenue for the whole year) to RMB347.4 million for the year ended 31 December 2011 (representing 4.9% of the Group's revenue for the whole year). The selling expenses increase with the increase in business operations. However, as the Group strictly controlled the expenses in 2011, the percentage of the Group's selling expenses as a ratio of the annual revenue decreased by 1 percentage as compared to last year.

Administrative expenses

The Group's administrative expenses increased from RMB754.3 million for the year ended 31 December 2010 (representing 12.8% of the Group's revenue for the whole year) to RMB817.7 million for the year ended 31 December 2011 (representing 11.5% of the Group's revenue for the whole year). The increase in administrative expenses was due to the increase in business operations and in research and development costs of the Group in 2011. However, as the Group strictly controlled the expenses in 2011, the percentage of the Group's administrative expenses as a share of the annual revenue decreased by 1.3 percentage as compared to last year.

Finance costs

The Group's finance costs increased by 50.8% from RMB18.1 million for the year ended 31 December 2010 to RMB27.3 million for the year ended 31 December 2011. The increase in finance costs was mainly due to the increase in interest expenses during the year as compared to last year. Finance costs mainly comprised of interests incurred for new borrowings during the year.

Asset impairment losses

The Group's asset impairment losses decreased by 54.1% from RMB149.9 million for the year ended 31 December 2010 to RMB68.8 million for the year ended 31 December 2011. The Group tidied up the positions of its assets thoroughly in 2010 and 2011, and made reasonable impairment provisions for assets with signs of impairment. The Group made an impairment provision of RMB131.6 million for an intangible asset with signs of impairment in 2010, and an impairment provision of RMB45.2 million for inventories with signs of impairment in 2011.

Non-operating income

The Group's non-operating income increased by 77.5% from RMB63.2 million for the year ended 31 December 2010 to RMB112.2 million for the year ended 31 December 2011. The increase in non-operating income was due to the increase in the one-off government subsidy during the year.

Non-operating expenses

The Group's non-operating expenses decreased by 96.3% from RMB34.7 million for the year ended 31 December 2010 to RMB1.3 million for the year ended 31 December 2011. The decrease in non-operating expenses was due to the decrease in loss on disposal of assets as compared to last year.

Total profit

The Group's total profit increased by 39.9% from RMB987.2 million for the year ended 31 December 2010 to RMB1,380.9 million for the year ended 31 December 2011. The increase in total profit was mainly due to the increase in revenue. The Group's profit margins for the years ended 31 December 2010 and 2011 were 16.8% and 19.4% respectively.

Income tax expense

The Group's income tax expense increased by 43.5% from RMB135.1 million for the year ended 31 December 2010 to RMB193.9 million for the year ended 31 December 2011.

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

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

The effective income tax rates of the Group for the years ended 31 December 2010 and 31 December 2011 were 13.7% and 14.0% respectively.

Net profit attributable to the shareholders of the Parent

Net profit attributable to the shareholders of the Parent increased by 39.3% from RMB850.5 million for the year ended 31 December 2010 to RMB1,184.4 million for the year ended 31 December 2011. The increase in the net profit attributable to the shareholders of the Parent was attributed to increased revenue.

Minority interests

Minority interests increased by 73.3% from RMB1.5 million for the year ended 31 December 2010 to RMB2.6 million for the year ended 31 December 2011. The increase in minority interests was mainly due to the increase in net profit from the Group's non-wholly owned subsidiaries as compared to last year.

Earnings per share

Earnings per share increased by RMB0.31 from RMB0.78 for the year ended 31 December 2010 to RMB1.09 for the year ended 31 December 2011.

Liquidity and source of capital

Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. The net increase in cash and cash equivalent of the Group amounted to RMB484.2 million for the year, was mainly due to the strengthened management of trade receivables collection by the Group and the increase in net cash inflow from operating activities in 2011.

Net cash flows from operating activities

The Group's net cash inflows from operating activities increased from RMB754.3 million for the year ended 31 December 2010 to RMB1,241.8 million for the year ended 31 December 2011, which was mainly due to the strengthened management of trade receivables collection by the Group.

Net cash flows used in investing activities

For the year ended 31 December 2011, the Group's net cash flows used in investing activities was approximately RMB618.1 million. Cash outflow items in investing activities mainly represented the payment of cash RMB352.3 million for the acquisition and construction of fixed assets, intangible assets and other long-term assets and the payment of cash RMB310.0 million for investment.

Net cash flows used in financing activities

For the year ended 31 December 2011, the Group's net cash flows used in financing activities amounted to approximately RMB139.5 million. Cash outflow items in financing activities mainly represented the payment of dividends and interests of RMB357.7 million.

Liquidity

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

Commitments

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

	31 December 2011 (RMB million)	31 December 2010 (RMB million)
Contracted but not provided:		
Purchase of fixed assets	**142.0**	189.2
Purchase of intangible assets	**10.1**	2.3
Investment commitments	**49.9**	—
Sub-total	**202.0**	191.5
Approved but not contracted:		
Purchase of fixed assets	**820.8**	175.4
Purchase of intangible assets	**11.1**	9.5
Sub-total	**831.9**	184.9
Total	**1,033.9**	376.4

Indebtedness

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

	31 December 2011 (RMB million)	31 December 2010 (RMB million)
Short-term borrowings	139.0	—
Short-term bonds	500.0	500.0
Long-term borrowings	60.3	3.1
Total	699.3	503.1

Gearing ratio

The Group monitors capital management using the gearing ratio, which is net debt divided by equity attributable to shareholders of the Parent plus net debt. Net debt includes short-term borrowings, short-term bonds payable, bills payable, trade payables, receipts in advance, employee benefits payable, taxes payable (excluding income tax payable), interests payable, other payables and long-term borrowings, less cash and cash equivalents. The Group's gearing ratio was 10.7% as at 31 December 2010 and 10.4% as at 31 December 2011.

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 foreign exchange risk and interest rate risk. Details of the risks are set out in notes to the financial statements.

Policy risk

The Group is subject to risks arising from change in construction policies of the railway market by the Chinese government.

Directors, Supervisors and Senior Management

Directors

Ding Rongjun, aged 51, the Chairman of the Board and an executive Director. Mr. Ding joined CSR ZELRI in August 1984 and has held the positions of deputy director and project manager of the scientific research department, deputy director, deputy chief engineer and chief engineer of CSR ZELRI. Mr. Ding served as the president of the Company from September 2005 to December 2007, and then served as the deputy general manager of CSR ZELRI from December 2007 to December 2008. He had been the general manager of CSR ZELRI from December 2008 to July 2009. He has been an executive director, general manager of CSR ZELRI since July 2009. Mr. Ding has been a director of Times New Materials since December 2008. 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 graduated from Central South University with a doctorate degree in Intelligent Control and Pattern Recognition in 2008. Mr. Ding was elected as a member of the Chinese Academy of Engineering in December 2011. 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 55, 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 45, an executive Director and the general manager. Mr. Li is the executive director of Times Electronics, Ningbo Times, Times Equipment, Times Information, Shenyang Times and Kunming Electric. He is the chairman of the board of directors of Baoji Times, Guangzhou Times and Dynex. Mr. Li joined CSR ZELRI in July 1989 and has held the positions of 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 had served as the chief marketing officer of the Company 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. Mr. Li graduated from Southwest Jiaotong University with a bachelor degree in Electric Traction and Drive Control in 1989. Mr. Li has been the general manager of the Company since January 2010, and has been an executive Director of the Company since April 2010.

Yan Wu, aged 45, a non-executive Director and secretary to the Board. Mr. Yan is a senior engineer. He 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 director of technical standards department of the Company from September 2005 to December 2007, and was appointed as director of the securities and legal department of the Company in January 2007. Mr. Yan had been the general secretary of the National Electric Traction Equipment and System Standardization Technical Committee from September 2005 to November 2011. Mr. Yan has been as the secretary to the Board of the Company in December 2007 and has been a non-executive Director of the Company since December 2010.

Ma Yunkun, aged 58, 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 January 2010 and has been the chairman of the board and secretary of the Party of Kunming China Railway from January 2010. Mr. Ma held the positions of deputy director of Kunming Machine Factory from 1994 to 2003 and the vice chairman of the board of directors and general manager of Kunming China Railway from 2003 to 2004. Mr. Ma has been a non-executive Director of the Company since September 2005.

Gao Yucai, aged 71, 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 director of the urban rail transportation committee of CCTA. Mr. Gao graduated from the PLA Engineering Institute (its predecessor is Harbin Institute of Military Engineering) in 1966. Mr. Gao has been an independent non-executive Director of the Company since November 2006.

Chan Kam Wing, **Clement**, aged 54, 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 Managing Partner of BDO Limited since May 2009. Mr. Chan was the Asia Pacific regional director and the Board member of Horwath International from 1996 to April 2009, during which Mr. Chan was the Managing Director of Horwath Hong Kong CPA Limited. Mr. Chan 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. Mr. Chan was elected as vice chairman of the HKICPA in 2012. Since January 2010, Mr. Chan 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. Chan is also the vice-chairman of the Registration and Practicing Committee of the HKICPA. Mr. Chan obtained a bachelor degree in Accounting and a master degree in Commerce from the United Kingdom and Australia, respectively. Mr. Chan has been an independent non-executive Director of the Company since September 2005.

Pao Ping Wing, aged 65, 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, New Environmental Energy 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 has been an independent non-executive Director of the Company since September 2005.

Liu Chunru, aged 41, an independent non-executive Director. Ms. Liu is a certified assets 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 has been an independent non-executive Director of the Company since June 2008.

Supervisors

He Wencheng, aged 54, a supervisor and the Chairman of the Supervisory Committee. Mr. He is a senior accountant. Mr. He joined CSR ZELRI in September 2009 as the vice general manager and chief financial officer. He held various positions as accountant, deputy director of the financial assets department, director of the finance department and the chief accountant of Zhuzhou Electric Locomotive Works (株洲電力機車廠) from December 1977 to March 2007. He served as the chief accountant of Qishuyan Works from March 2007 to January 2008 and the vice general manager and chief financial officer of CSR Qishuyan Locomotive Co., Ltd. from January 2008 to September 2009. Mr. He studied at East China Jiaotong University from August 1983 to July 1985. Mr. He has been a supervisor of the Company since June 2010.

Pang Yiming, aged 48, a supervisor. Mr. Pang is the general manager of the printed circuit business division of the Company. Mr. Pang joined CSR ZELRI in October 1982 and has held positions of assistant to the general manager of the manufacturing centre of CSR ZELRI and the deputy general manager of Times Electronics, chief production officer and director of the production department of Times Electronics. Mr. Pang had been the assistant to director and deputy general manager of the marketing management department of marketing centre of the Company from January 2007 to January 2009. Mr. Pang served as the director of the marketing management department of the Company from January to December 2009, and was the director of the operation management department of the Company from January 2010 to December 2011. Mr. Pang has been the general manager of the printed circuit department since January 2012. Mr. Pang graduated from Central South University in 2004 after a three-year study in management and engineering. Mr. Pang has been an employee representative supervisor of the Company since September 2005.

Zhou Guifa, aged 48, a supervisor. Mr. Zhou is a professor ranked senior engineer. He joined CSR ZELRI 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 has been an employee representative supervisor of the Company since January 2010.

Geng Jianxin, aged 58, an independent supervisor. Mr. Geng has been a teacher at the Department of Accounting of the Renmin University of China since 1993 and now a professor and a doctoral supervisor thereof. Mr. Geng graduated from Zhejiang Metallurgy and Economics College, majoring in accountancy in 1981. He worked as an assistant accountant for a geophysics exploration company of the Ministry of Metallurgical Industry from 1981 to 1984 and for the Taxation Bureau of Baoding, Hebei from 1984 to 1985. He obtained a master degree in economics from Zhongnan University of Law and Economics in 1988 and worked as a lecturer and assistant professor at Hebei Institute of Economics and Business from 1988 to 1990. He obtained a doctorate degree in administration from the Department of Accounting of the Renmin University of China in 1993. Mr. Geng has been an independent supervisor of the Company since June 2011.

Senior Management

Li Donglin, aged 45, an executive Director and general manager. Biographical details of Mr Li are set out above.

Du Jinsong, aged 46, Party secretary and deputy general manager. Mr. Du is a senior engineer. He joined CSR ZELRI in 1989 and has held various positions as group leader, director of the production department, vice director in charge of production, executive vice director and deputy general manager of the manufacturing centre of CSR ZELRI. He had been the deputy general manager of the marketing centre of CSR ZELRI from March 2002 to March 2004. Mr. Du served as deputy general manager and secretary of Party general branch of power electronic business unit of CSR ZELRI from March 2004 to December 2004 . Mr. Du held various positions as deputy general manager and Party branch secretary, executive deputy general manager and party branch secretary of engineering centre of CSR ZELRI from December 2004 to August 2006. Mr. Du served as general manager and vice secretary of Party general branch of wind power unit of CSR ZELRI from August 2006 to December 2011. Mr. Du graduated from East China Jiaotong University with a bachelor degree in Electric Traction and Drive Control in 1989 and graduated from Changsha Railway Institute with a certificate of graduation in Traffic Information and Control in 1999. He later graduated from Hunan University with a certificate of graduation in business administration in 2001. Mr. Du has served as Party secretary and deputy general manager since January 2012.

Jiang Yi, aged 41, 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 centre, 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 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, the deputy chief engineer of the Company from January 2007 to December 2007 and the chief marketing officer of the Company from December 2007 to December 2009. 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 and obtained a master degree in Business Administration from Hunan University in February 2006. Mr. Jiang has been the chief planning officer of the Company since January 2010.

Liu Ke'an, aged 41, chief technology officer. Mr. Liu is a senior engineer. He joined CSR ZELRI in August 1994 and has held various positions as engineer, chief engineer, senior engineer, chief designer. He has held various positions such as the director of the drive technology department of the technology centre of the Company, the director of systems project department of the technology centre, deputy director and director of the technology centre since September 2005. Mr. Liu is a director of Dynex. He served as an employees' representative supervisor of the Company from December 2007 to January 2010. He graduated from the Department of Electrical Engineering of Tongji University with a bachelor degree in Engineering in 1994. Mr. Liu has been the chief technology officer of the Company since January 2010.

Chen Jian, aged 40, 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 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 degree in 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 47, 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, director and general manager of the manufacturing centre. Mr. Liu served as deputy chief economist of the Company from January 2008 to December 2009. He graduated from Beijing Jiaotong University in July 1988 with a bachelor degree in Electric Traction and Drive Control, and studied the MBA programme at Business School of Central South University from June 2003 to April 2005. Mr. Liu has been the chief production officer of the Company since January 2010.

Xiao Shaoping, aged 40, chief financial officer. Mr. Xiao is a doctor in management science and engineering, a senior accountant, a 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 assets department and vice director of financial assets 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 Milkyway 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 assets department of the Company from January 2005 to January 2010. Mr. Xiao graduated from China Jiliang University in June 1993, obtained a master degree in Accounting from Central South University in May 2003, and obtained a doctorate degree in Management Science and Engineering from Central South University in December 2011. Mr. Xiao has been the chief financial officer of the Company since January 2010.

Tan Yongneng, aged 42, chief administration officer and chairman of the labour union. He joined CSR ZELRI in July 1990, and has successively held various positions as director of general manager's office of Times Electronics, director of department of Party and mass affairs and director of Party office of CSR ZELRI. He was the director of department of Party and mass affairs and director of department of auditing of the Company from December 2004 to December 2005, director of department of Party and mass affairs and director of Party office of CSR ZELRI from December 2005 to December 2007, and director of administration office and director of secretary office of decision-making committee of CSR ZELRI from January 2008 to January 2010. Mr. Tan graduated from the Electrical Department of Xiangtan University majored in Electrical Technology in July 1995. He attended the on-the-job postgraduate programme in Psychology and Human Resources of Peking University in 2000, and obtained a certificate of graduation by completing the full postgraduate programme in July 2002. He attended the on-the-job MBA programme of Business School of Central South University in 2003 and obtained a certificate of graduation by completing the full postgraduate programme in July 2005. Mr. Tan has been the chief administration officer and the chairman of the labour union of the Company since January 2010.

Yan Wu, aged 45, a non-executive Director and secretary to the Board. Biographical details of Mr. Yan are set out above.

Tang Tuong Hock, Gabriel, aged 59, 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 from July 2006 to June 2011. Mr. Tang has served as company secretary and authorised representative of the Company since July 2011.

Corporate Governance Report

The Company has always been dedicated to improving the quality of its corporate governance, and 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 superiority, stability and reasonability of its corporate governance. For the reporting period ended 31 December 2011, the Company has adopted and applied the principles contained in the CG Code set out in Appendix 14 of the Listing Rules and has complied with all code provisions of the CG Code.

The Board of Directors and the management of the Company make 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 the general regulations and standards required by shareholders, 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, committees of the Board, the Supervisory Committee and the management check and balance one another. The divisions of responsibilities among the shareholders' general meeting, the Board, 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 has 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 the Directors, the Company confirmed that all 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

According to the Articles of the Company, the Board of Directors of the Company shall comprise ten Directors, with one Chairman, one Vice Chairman and eight Directors of which three or more shall be independent non-executive Directors.

As at the date of this report, the Board consists of nine 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. Yan Wu and Ma Yunkun are non-executive Directors; and Messrs. Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Ms. Liu Chunru are independent non-executive Directors.

During the reporting period, the members of the Board of Directors of the Company commenced general election on 10 June 2011. The existing Directors including Messrs Ding Rongjun, Deng Huijin, Li Donglin, Yan Wu, Ma Yun kun, Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Ms. Liu Chunru were eligible for re-election and the former Director Mr. Tan Xiao'ao did not seek for re-election due to personal reasons. The number of members of the Board of Directors of the Company is one less than the number required by the Articles for the time being, the Company hopes to search for a suitable person to fill the vacancy as soon as possible.

The Company has entered into service contracts with all Directors for a term of three years. The contracts shall remain valid for a term of three years or for a shorter period as may be decided upon at the re-elections of the Directors at the general meeting. Notice of termination of Directors' service contracts given by any party shall not be less than three months.

The Directors have strictly complied with their undertakings, and have been honest, trust-worthy and diligent in the performance of their duties. Save for the aforesaid non-compliance with the Articles of the Company regarding the number of Board members, the number of Directors and the composition of the Board have complied 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, Clement, Pao Ping Wing 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 six 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	6	6	100%	
Deng Huijin	Vice Chairman of the Board and Non-Executive Director	6	6	100%	
Li Donglin	Executive Director	6	6	100%	
Yan Wu	Non-Executive Director	6	6	100%	
Ma Yunkun	Non-Executive Director	6	6	100%	
Gao Yucai	Independent Non-Executive Director	6	6	100%	
Chan Kam Wing, Clement	Independent Non-Executive Director	6	6	100%	
Pao Ping Wing	Independent Non-Executive Director	6	6	100%	
Liu Chunru	Independent Non-Executive Director	6	6	100%	
Tan Xiao'ao	Independent Non-Executive Director	2	2	100%	Resigned as an independent non-executive Director in June 2011

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 14 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 powers:

(1) to convene shareholders' general meetings and to report on its work to the shareholders' general meetings;

(2) to implement the resolutions of the shareholders' general meetings;

(3) to make decisions on business plans and investment plans;

(4) to draw up proposed annual financial budget and final budgetary reports;

(5) to draw up profit distribution plans and plans for making up for losses;

(6) to draw up plans for the material investments, material acquisitions or disposals, mergers, split or dissolution of the Company; and

(7) to draw up proposals for any modifications 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 interest in any connected transaction cannot participate in the vote that the Board takes with respect to that particular connected 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. Committees of the Board

The Company has established separate strategy, audit, risk management, nomination and remuneration committees. The function of each 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 three Directors, including two executive Directors and one independent non-executive Director. The members of the strategy committee are Messrs. Ding Rongjun, Li Donglin 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 material investment and financial plans; and

(4) to review material 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 five Directors, including a non-executive Director and four independent non-executive Directors. The committee's members are Messrs. Chan Kam Wing, Clement, Pao Ping Wing, Gao Yucai, Ms. Liu Chunru and Mr. Ma Yunkun. Mr. Chan Kam Wing, Clement 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, interim results, quarterly 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 2011
Chan Kam Wing, Clement	4/4
Pao Ping Wing	4/4
Gao Yucai	4/4
Tan Xiao'ao (Note)	2/2
Liu Chunru	4/4
Ma Yunkun	4/4

Note: Mr. Tan Xiao'ao resigned as a member of the audit committee of the Company in June 2011.

The Company has established an audit and risk control department with relatively independent internal audit functions. The audit and risk control department 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, Clement and Yan Wu. Mr. Deng Huijin is the risk management committee's chairman.

The main responsibility of the risk management committee is to draw up, 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 session of the Board held on 27 June 2008. Prior to 29 March 2012, it consisted of three independent non-executive Directors. The committee members were Messrs. Pao Ping Wing, Gao Yucai and Ms. Liu Chunru. Mr. Pao Ping Wing was the chairman of the nomination and remuneration committee.

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 one nomination and remuneration committee meeting. Remuneration of the Directors and the senior management, and the change of Directors were the main issues discussed at such meeting. The following table shows the record of attendance of the nomination and remuneration committee members:

Committee member	Attendance rate for meetings held during the year ended 31 December 2011
Pao Ping Wing	1/1
Gao Yucai (Note 1)	0/0
Liu Chunru	1/1
Tan Xiao'ao (Note 2)	1/1

Note :

(1) Mr. Gao Yucai was appointed as the member of the nomination and remuneration committee of the Company in June 2011.

(2) Mr. Tan Xiao'ao resigned as a member of the nomination and remuneration committee of the Company in June 2011.

As approved by the Board on 29 March 2012, the nomination and remuneration committee was separated into the nomination committee and the remuneration committee. The members of the nomination committee are Messrs. Ding Rongjun and Pao Ping Wing and Ms. Liu Chunru and Mr. Ding Rongjun is the chairman of the nomination committee. The members of the remuneration committee are Messrs. Pao Ping Wing, Gao Yucai and Ms. Liu Chunru and Mr. Pao Ping Wing is the chairman of the remuneration committee.

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 powers:

(1) to preside at the shareholders' general meetings, and to convene and preside the Board meetings;

(2) to supervise and check the implementation of the Board resolutions;

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

(4) other powers given 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 powers:

(1) to be in charge of the Company's production, operation and management and to organise the implementation of the Board's resolutions;

(2) to organise the implementation of the Company's annual business plan and investment plan;

(3) to draft plan for establishment of the Company's internal management structure;

(4) to draft the Company's basic management system;

(5) to formulate the basic rules and regulations for the Company;

(6) to propose the appointment or removal of deputy general manager, chief officers and assistants to the general manager of the Company;

(7) to appoint or remove management personnel other than those required to be appointed or removed by the Board; and

(8) to determine the wages, benefits, incentives and punishments of employees, the appointment and removal, promotion and demotion, salary increment and decrement, appointment, employment, removal, resignation or termination of employment 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 2011, the Company appointed Ernst & Young and Ernst & Young Hua Ming to provide annual results auditing and interim results agreed upon procedures services to the Company. Ernst & Young and Ernst & Young Hua Ming also provided agreed upon procedure services on quarterly continuing connected transactions for the Company.

In accordance with the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" which was published by the of Hong Kong Stock Exchange in December 2010 and the related amendments to the Listing Rules, upon approval by shareholders of the Company at the extraordinary general meeting held on 13 December 2011, the Company no longer appointed Ernst & Young as the Company's international auditor and appointed Ernst & Young Hua Ming (being one of the approved accounting firms in the Mainland) as the Company's sole auditor to audit the financial statements of the Company for the year ended 31 December 2011 prepared in accordance with "PRC Accounting Standards for Business Enterprises" and the relevant regulations issued by the China Ministry of Finance and carry out all activities required to be conducted by auditors under the Listing Rules (including but not limited to preliminary announcement on annual results and annual agreed upon procedures service for continuing connected transactions), with a term of office until the end of the next annual general meeting. Details of the external auditors' remuneration of the Company are as follows:

	For the year ended 31 December 2011 (RMB'000)
Service provided:	**Ernst & Young and Ernst & Young Hua Ming**
Annual results auditing service	2,900
Interim results agreed upon procedures service	570
Quarterly agreed upon procedures service for continuing connected transactions	490
Short-term bonds service	30

Note: Annual results auditing service includes auditing service provided to certain companies under the Group in accordance with the PRC Accounting Standards. The above auditing and agreed upon procedures services included advance for business taxes, hotel accommodation 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 2011.

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 organisation 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 management committee of the Board, the audit and risk control department carry out inspection, supervision and evaluation for internal controls of the Company and its subsidiaries in respect of important control functions such as financial control, operational control, compliance control and risk management, supervise and timely make up internal control deficiencies and control risks.

During the reporting period, the Company further enhanced the levels of internal control by strengthening internal control systems and overall risk management systems as well as optimizing of working procedures to control and prevent material risks and fraudulent practices to a certain degree. The activities conducted by the Company mainly comprised the following: implementing annual internal control self evaluation and internal control weakness rectification to constantly maintain and improve internal control; creating a structure of internal control system and enterprise standard system and establishing a management system based on technology, management and working standard, and issuing and enforcing the Enterprise Standard System, Internal Control Manual and Internal Control Assessment Manual to render the Company and management activities with more clear procedures, requirement, objectives and improvement models; implementing procurement price risk review to enhance the monitoring of the Company's procurement risks; implementing material risk precaution, risk event update, risk assessment, and forming a two-tier company internal control system and a risk management two-tier organisation system to realise the correlated risk prevention and control among the Company and its branches and subsidiaries so as to ensure the Company to respond to changes in business and external environment from financial, operational and risk management perspectives in order to protect the Company's assets safety and interests of shareholders.

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 2011" 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 2011. 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 2011. The respective businesses of the Parent Group and the CSRG Group (excluding the Parent Group) were independent of the Group's business, having different technologies and different customers, which did 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 Investor Relation

The Company places great emphasis on communication with investors and has established a specialised department to handle affairs regarding investor relation. 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 investor relation and organises the management to conduct overseas roadshows, so as to enable investors to have better understanding about the Company.

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 quarterly reports, interim reports 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.

Directors' Report

The Board of Directors is pleased to present the Directors' Report and the audited financial statements of the Group for the year ended 31 December 2011.

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 business during the reporting period.

Results and dividends

Results of the Group for the year ended 31 December 2011, prepared in accordance with PRC Accounting Standards, are set out on page 44 to page 159 of this annual report.

The Company has profit attributable to shareholders (before the proposed final dividend) of RMB2,023.3 million as at 31 December 2011. The Board proposed distribution of a cash dividend of RMB0.340 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 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 relevant dividends after deducting corporate income tax 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 8 June 2012.

Pursuant to the requirements of "Notice of the Ministry of Finance and the State Administration of Taxation on Certain Policies Regarding Individual Income Tax (Cai Shui Zi [1994]020)" (《財政部、國家稅務總局關於個人所得稅若干政策問題的通知》(財稅字[1994]020號)), individual foreigners exempt from individual income tax on dividend and bonus from foreign-invested enterprises in the PRC. As the Company is a foreign-invested joint stock limited company, thus the individual shareholders who held the H shares of the Company and appeared in the H-share registrar are not required to pay the individual income tax of PRC.

In order to ascertain the shareholder capacity for attend the forthcoming annual general meeting to be held on 8 June 2012, the register of members of the Company will be temporarily closed from 9 May 2012 to 8 June 2012 (both days inclusive), during which no transfer of shares will be registered.

In order to ascertain the entitlements of the shareholders to receive the final dividend, the register of members of the Company will be temporarily closed from 14 June 2012 to 19 June 2012 (both days inclusive), during which 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 2011 annual general meeting to be held on 8 June 2012).

Financial Highlights

Fixed assets

Details of the changes in the fixed assets of the Group during the year are set out in note V.11 to the financial statements.

Short-term borrowings

Details of the Group's short-term borrowings as at 31 December 2011 are set out in note V.18 to the financial statements.

Short-term bonds payable

Details of the Group's short-term Bonds payable as at 31 December 2011 are set out in note V.19 to the financial statements.

Long-term borrowings

Details of the Group's Long-term borrowings as at 31 December 2011 are set out in note V.28 to the financial statements.

Share capital

There were no changes in the share capital of the Company during the reporting period. Please refer to note V.31 to the financial statements for details.

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 2011. 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 remuneration 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, 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 2011
Directors of Dynex	10 December 2007	9 December 2012	CAD 0.30	100,000
	14 February 2008	13 February 2013	CAD 0.30	50,000
Total				150,000

Notes:

1. All outstanding options are fully vested.
2. The outstanding options have a weighted average remaining life of 1 years and a weighted average exercise price of CAD 0.30.
3. The closing price of the shares of Dynex immediately before 10 December 2007 on which date options were granted to its directors was CAD 0.30.
4. The closing price of the shares of Dynex immediately before 14 February 2008 on which date options were granted to its directors was CAD 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 Company Law of the PRC nor in the Articles 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.

Shareholders' equity

Details of the changes in the shareholders' equity of the Company and the Group during the year are set out in the statement of changes in equity and the consolidated statement of changes in equity respectively.

Profit distributable to shareholders

As at 31 December 2011, calculated in accordance with relevant regulations, the Company's profit distributable to shareholders amounted to approximately RMB2,023.3 million, of which approximately RMB368.6 million has been proposed to be paid as final dividend for the year.

Major customers and suppliers

The percentage of revenue attributable to the Group's five largest customers during the year was approximately 68.8% of the Group's total revenue.

CSR Sifang is the largest customer of the Group, and the percentage of the Group's revenue to CSR Sifang during the year was approximately 36.3% of the Group's total revenue. CSR Sifang is owned as to 97.2% by CSR.

CSR Zhuzhou is one of the Group's five largest customers. It is owned as to 100% 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 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

Non-executive Directors

Deng Huijin – Vice Chairman of the Board

Yan Wu

Ma Yunkun

Independent non-executive Directors

Gao Yucai

Chan Kam Wing, Clement

Pao Ping Wing

Liu Chunru

Tan Xiao'ao (resigned as an independent non-executive Director of the Company in June 2011)

Supervisors

He Wencheng – Chairman of the Supervisory Committee

Pang Yiming – employee representative supervisor

Zhou Guifa – employee representative supervisor

Geng Jianxin – independent supervisor (appointed as an independent supervisor of the Company in June 2011)

Shuai Tianlong – independent supervisor (resigned as an independent supervisor of the Company in June 2011)

Wang Kun – independent supervisor (resigned as an independent supervisor of the Company in June 2011)

Composition of the Supervisory Committee

According to the Articles of the Company, the Supervisory Committee shall comprise five supervisors, of which three supervisors are representatives of shareholders and two supervisors are representatives of employees.

As at the date of this Report, the Supervisory Committee comprises four supervisors. Of which, Mr. He Wencheng is the Chairman of the Supervisory Committee, Mr. Pang Yiming and Mr. Zhou Guifa are the employee representative supervisors, and Mr. Geng Jianxin is the independent supervisor.

During the reporting period, the members of the Supervisory Committee of the Company conducted re-election on 10 June 2011. Among the former supervisors, Mr. He Wencheng, Mr. Pang Yiming and Mr. Zhou Guifa were re-elected, while the former independent supervisors Mr. Shuai Tianlong and Ms. Wang Kun did not seek for re-election due to personal reasons. The number of members of the Supervisory Committee of the Company is one less than the number required by the Articles for the time being, the Company hopes to search for a suitable person to fill the vacancy as soon as possible.

Biographies of Directors and supervisors of the Company

Details of the biographies of the Directors and supervisors of the Company are set out on page 13 to page 17 of this annual report.

Service contracts with Directors and supervisors

The Company has entered into service contracts with all Directors and supervisors, for a term of three years which shall continue for 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 of termination of service contracts given by any party shall not be less than 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 and as at 31 December 2011, 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 holding Company or any of its subsidiaries was a party.

Interests and short positions of Directors, supervisors and the general manager in the shares and debentures of the Company

Apart from the stock option plan and the directors' share plan of Dynex set out above, as at 31 December 2011, 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.

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 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, its holding 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' work performance, qualifications and competence. The Group offers salary increments and bonuses to employees with outstanding performance. The bonus plan 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 organise 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 2011, the Group has 4,963 full time employees, and the total amount of remuneration (including salaries and allowances) for employees in 2011 was approximately RMB658.0 million.

The remuneration of Directors and supervisors are proposed by the Board and subject to approval by shareholders of the Company at the 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 X.5 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 as 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 2011 was as follows:

		As at 31 December 2011	
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 2011 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.	6,068,988 (Long position)	Beneficial owner	—	1.33%	0.56%
	4,711,988 (Short position)	Beneficial owner	—	1.03%	0.43%
	20,153,000 (Long position)	Investment manager	—	4.42%	1.86%
	27,871,935 (Lending pool shares)	Custodian/ Approved lending agent	—	6.11%	2.57%
Cheah Capital Management Limited	35,883,000 (Long position)	Interest in controlled entity	—	7.87%	3.31%
Cheah Company Limited	35,883,000 (Long position)	Interest in controlled entity	—	7.87%	3.31%
Hang Seng Bank Trustee International Limited	35,883,000 (Long position)	Trustee	—	7.87%	3.31%
Value Partners Group Limited	35,883,000 (Long position)	Interest in controlled entity	—	7.87%	3.31%

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
Value Partners Limited	35,883,000 (Long position)	Investment manager	—	7.87%	3.31%
Du Qiaoxian (杜巧賢)	35,883,000 (Long position)	Interest in spouse	—	7.87%	3.31%
Cheah Cheng Hye (謝清海)	35,883,000 (Long position)	Person establishing the discretionary trust	—	7.87%	3.31%
GE Asset Management Incorporated	26,958,645 (Long position)	Investment manager	—	5.91%	2.49%
BlackRock, Inc.	24,348,745 (Long position)	Interest in controlled entity	—	5.34%	2.25%
	1,821,791 (Note 3) (Short position)	Interest in controlled entity	—	0.40%	0.17%
Fortis Investment Management SA	23,544,000 (Long position)	Investment manager	—	5.16%	2.17%
Morgan Stanley	23,193,000 (Note 4) (Long position)	Interest in controlled entity	—	5.08%	2.14%
	22,684,596 (Short position)	Interest in controlled entity	—	4.97%	2.09%
FIL Limited	22,913,000 (Long position)	Investment manager	—	5.02%	2.11%

Note:

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

(2) CSRG is directly and indirectly interested in 55.06% 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) As stated in the corporate substantial shareholders notification filed in by BlackRock Inc., 325,000 H shares are short positions in underlying shares under equity derivative interests.

(4) As stated in the corporate substantial shareholders notification filed in by Morgan Stanley, 25,000 H shares are long positions in underlying shares under equity derivative interests.

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:

Non-exempt continuing connected transactions

The following transactions constituted non-exempt continuing connected transactions of the Group and thus are subject to reporting, announcement and independent shareholders' approval requirements under Rule 14A.45 to 14A.48 of the Listing Rules.

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 the 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 (the "CSRG Renewed 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 five financial years from 2009 to 2013. The CSRG Renewed Agreement and the revised annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting held on 27 June 2008.

On 14 April 2009, the Company entered into a supplemental agreement to the CSRG Renewed Agreement (the "CSRG First Supplemental Agreement") with CSRG to revise the annual caps of continuing connected transactions for each of the five years ending 31 December 2013 contemplated under the CSRG Renewed Agreement. The CSRG First Supplemental Agreement and the revised annual caps of continuing connected transactions for each of the five financial years from 2009 to 2013 were approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

On 25 March 2011, the Company further entered into a supplemental agreement to the CSRG Renewed Agreement (as supplemented by the CSRG First Supplemental Agreement) (the "CSRG Second Supplemental Agreement") with CSRG to, among others, revise the annual caps of continuing connected transactions for the three financial years from 1 January 2011 to 31 December 2013. The CSRG Second Supplemental Agreement and the revised annual caps have obtained the approval of the independent shareholders of the Company at the extraordinary general meeting held on 10 June 2011.

For the year ended 31 December 2011, the amount payable by the Group to the CSRG Group for the products and services supplied by the CSR Group under the CSRG Renewed Agreement (as supplemented by the CSRG First Supplemental Agreement and the CSRG Second Supplemental Agreement) amounted to RMB597.1 million, and the amount payable by the CSRG Group to the Group for the products and services supplied by the Group under the CSRG Renewed Agreement (as supplemented by the CSRG First Supplemental Agreement and the CSRG Second Supplemental Agreement) amounted to RMB4,590.4 million, which are within the annual caps of continuing connected transactions for the year ended 31 December 2011 approved by independent shareholders of the Company at the extraordinary general meeting held on 10 June 2011.

Annual Review of Continuing Connected Transactions

Pursuant to Chapter 14A.38 of the Listing Rules, the Board has engaged the auditors of the Company to perform certain procedures in respect of the continuing connected transactions of the Group. The auditors have reported the results 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 into in the ordinary and usual course of business of the Group;

(2) are entered into on normal commercial terms or if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than those available to or from (as appropriate) independent third parties;

(3) are conducted in accordance with the agreements governing such transactions, 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 2011 approved at the extraordinary general meeting held by the Company on 10 June 2011.

Mechanism for protecting non-controlling interests

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

(i) Interested directors have to declare their respective interests, and would not attend Board meetings and would not vote in respect of the connected transactions they are interested in. Accordingly, Mr. Ding Rongjun and Mr. Deng Huijin did not attend the Board meetings and did not vote in respect of the connected transactions between the Company and the CSRG Group.

(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 shareholders of the Company 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.

(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 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 the year ended 2011, 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 2011. 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

As at 29 March 2012, the fifth meeting of the third session of the Board of the Company approved the profit distribution plan for 2011 to distribute cash dividends of RMB 368,646,917 in total to all shareholders, equivalent to the distribution of RMB0.340 per share (tax inclusive) based on the total number of 1,084,255,637 shares of the Company.

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, and the payer shall serve as the withholding agent.

Save as disclosed above, for the year ended 31 December 2011, 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 Hua Ming, and a resolution will be put forward at the forthcoming annual general meeting to re-appoint Ernst & Young Hua Ming as the Company's auditor.

By order of the Board

Ding Rongjun
Chairman of the Board

Changsha, Hunan, PRC
29 March 2012

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

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

1. During the year, the Company held four Supervisory Committee meetings. The notices, convening and holding and passing 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 2010 work report of the Supervisory Committee, the 2010 financial report, the 2010 annual report, the 2011 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 2011, in accordance with applicable laws and regulations, the Supervisory Committee reviewed the procedures adopted in the convening of meetings, passing resolutions, decision-making procedures, results of voting of the Company's shareholders' general meetings and the Board meetings, implementation of resolutions of shareholders' general meeting by the Board, 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 diligently performed their responsibilities in good faith and in compliance with the applicable laws and regulations. During the reporting period, there were no breaches of laws or regulations to the detriment of the Company or the interests of shareholders in any material aspect.

2. Financial reports give a true and accurate view

The Supervisory Committee seriously reviewed the Group's financial system and financial position in detail. The Supervisory Committee considers the Group's 2011 financial reports to be true and accurate and present the financial position and operating results objectively, and that the audit opinion and other relevant comments made by Ernst & Young Hua Ming are also true and fair.

3. Connected transactions

The Supervisory Committee considers that connected transactions between the Group and the CSRG 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 2011 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 10 June 2011.

4. 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.

5. The implementation of resolutions of the annual general meeting

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

He Wencheng
Chairman of the Supervisory Committee
Changsha, Hunan, PRC

29 March 2012

Auditors' Report

(English Translation for Reference Only)

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安 永

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Ernst & Young Hua Ming (2012) Shen Zi No. 60467257_A01

To the shareholders of Zhuzhou CSR Times Electric Co., Ltd.:

We have audited the accompanying financial statements of Zhuzhou CSR Times Electric Co., Ltd., which comprise the consolidated and company balance sheets as at 31 December 2011, and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year then ended, and the notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

Management of Zhuzhou CSR Times Electric Co., Ltd. is responsible for the preparation and fair presentation of these financial statements. This responsibility includes: (1) preparing and fairly presenting the financial statements in accordance with Accounting Standards for Business Enterprises; (2) designing, implementing and maintaining internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

2. AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China Standards on Auditing. Those standards require that we comply with the Code of Ethics for Chinese Certified Public Accountants and plan and perform the audit to obtain reasonable assurance about 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' judgment, 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 the internal control relevant to the entity's preparation and fair presentation of 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 management, 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.

3. OPINION

In our opinion, the financial statements present fairly, in all material respects, the consolidated and company financial position of Zhuzhou CSR Times Electric Co., Ltd. as at 31 December 2011 and the consolidated and company financial performance and cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

Ernst & Young Hua Ming

Chinese Certified Public Accountant: Zhang Ningning

Chinese Certified Public Accountant: Gu Weitao

Beijing, the People's Republic of China

29 March 2012

Consolidated Balance Sheet

31 December 2011

Renminbi Yuan

ASSETS	Note V	31 December 2011	31 December 2010
CURRENT ASSETS			
Cash and bank balances	1	**2,157,721,027**	1,681,459,290
Bills receivable	2	**1,051,609,300**	791,448,692
Trade receivables	3	**1,119,253,348**	901,235,717
Prepayments	4	**109,766,313**	103,856,109
Other receivables	5	**103,373,942**	26,649,880
Inventories	6	**1,668,583,237**	1,590,491,385
Non-current assets due within one year	8	**1,092,595**	—
Other current assets	7	**326,745,808**	83,835,319
Total current assets		**6,538,145,570**	5,178,976,392
NON-CURRENT ASSETS			
Long-term receivables	8	**1,772,676**	4,049,142
Long-term equity investments	10	**202,853,768**	168,103,938
Fixed assets	11	**1,367,692,631**	1,200,278,728
Construction in progress		**135,340,542**	203,315,594
Intangible assets	12	**200,313,770**	182,331,684
Development expenditure	12	**39,322,801**	7,124,068
Goodwill	13	**58,694,931**	61,039,505
Deferred tax assets	14	**59,717,549**	43,677,601
Other non-current assets	15	**50,325,133**	39,378,500
Total non-current assets		**2,116,033,801**	1,909,298,760
TOTAL ASSETS		**8,654,179,371**	7,088,275,152

The notes set out on page 59 to page 159 are components of these financial statements.

Consolidated Balance Sheet

31 December 2011

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2011	31 December 2010
CURRENT LIABILITIES			
Short-term borrowings	18	**139,000,000**	—
Short-term bonds payable	19	**500,000,000**	500,000,000
Bills payable	20	**448,604,661**	196,086,850
Trade payables	21	**906,553,647**	1,012,637,815
Receipts in advance	22	**351,164,281**	243,057,865
Employee benefits payable	23	**15,390,522**	7,680,029
Taxes payable	24	**286,584,166**	171,837,030
Interests payable	25	**12,468,969**	6,845,833
Other payables	26	**134,599,283**	103,506,159
Non-current liabilities due within one year	27	**125,258,321**	134,693,562
Total current liabilities		**2,919,623,850**	2,376,345,143
NON-CURRENT LIABILITIES			
Long-term borrowings	28	**57,075,276**	2,332,751
Deferred tax liabilities	14	**15,725,481**	13,714,095
Provisions	29	**134,147,121**	91,150,106
Other non-current liabilities	30	**89,923,075**	34,969,987
Total non-current liabilities		**296,870,953**	142,166,939
Total liabilities		**3,216,494,803**	2,518,512,082
SHAREHOLDERS' EQUITY			
Share capital	31	**1,084,255,637**	1,084,255,637
Capital reserve	32	**1,693,508,949**	1,693,508,949
Surplus reserve	33	**350,134,445**	227,060,371
Retained earnings	34	**2,218,523,143**	1,487,852,295
Exchange fluctuation reserve		**(29,761,317)**	(19,730,237)
Total equity attributable to shareholders of the Parent		**5,316,660,857**	4,472,947,015
Minority interests		**121,023,711**	96,816,055
Total shareholders' equity		**5,437,684,568**	4,569,763,070
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**8,654,179,371**	7,088,275,152

The notes set out on page 59 to page 159 are components of these financial statements.

The financial statements are signed by the following persons:

Legal Representative:	Chief Financial Officer:	Head of Accounting Department:
Ding Rongjun	**Xiao Shaoping**	**Liu Zehua**

Consolidated Income Statement

For the year ended 31 December 2011

Renminbi Yuan

	Note V	2011	2010
Revenue	35	**7,124,774,974**	5,886,854,235
Less: Cost of sales	35	**4,598,693,100**	3,708,357,506
Business taxes and surcharges	36	**45,691,926**	9,704,011
Selling expenses		**347,441,917**	345,716,671
Administrative expenses	37	**817,743,978**	754,306,139
Finance costs	38	**27,342,197**	18,091,668
Asset impairment losses	39	**68,847,635**	149,946,109
Add: Investment income	40	**51,090,507**	57,927,000
including: share of profits of an associate and a jointly controlled entity	40	**49,811,540**	57,303,971
Operating profit		**1,270,104,728**	958,659,131
Add: Non-operating income	41	**112,153,540**	63,167,927
Less: Non-operating expenses	42	**1,336,057**	34,667,643
including: loss on disposal of non-current assets	42	**904,403**	32,252,900
Total profit		**1,380,922,211**	987,159,415
Less: Income tax expense	43	**193,885,925**	135,097,752
Net profit		**1,187,036,286**	852,061,663
Net profit attributable to shareholders of the Parent		**1,184,442,891**	850,528,177
Minority interests		**2,593,395**	1,533,486
Earnings per share (Yuan/Share)	44		
Basic		**1.09**	0.78
Diluted		**1.09**	0.78
Other comprehensive income	45	**(12,416,819)**	(18,187,345)
Total comprehensive income		**1,174,619,467**	833,874,318
Including:			
Total comprehensive income attributable to shareholders of the Parent		**1,174,411,811**	836,004,404
Total comprehensive income attributable to minority interests		**207,656**	(2,130,086)

The notes set out on page 59 to page 159 are components of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

Renminbi Yuan

2011	Attributable to shareholders of the Parent							
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
I. Closing balance of last year	1,084,255,637	1,693,508,949	227,060,371	1,487,852,295	(19,730,237)	4,472,947,015	96,816,055	4,569,763,070
II. Movements during the year								
(i) Net profit	–	–	–	1,184,442,891	–	1,184,442,891	2,593,395	1,187,036,286
(ii) Other comprehensive income								
1. Exchange differences on translation of foreign operations	–	–	–	–	(10,031,080)	(10,031,080)	(2,385,739)	(12,416,819)
Total comprehensive income	–	–	–	1,184,442,891	(10,031,080)	1,174,411,811	207,656	1,174,619,467
(iii) Capital contribution and withdrawal by shareholders								
1. Capital contribution by minority shareholders	–	–	–	–	–	–	24,000,000	24,000,000
(iv) Profit appropriation								
1. Transfer to surplus reserve	–	–	123,074,074	(123,074,074)	–	–	–	–
2. Dividend paid	–	–	–	(330,697,969)	–	(330,697,969)	–	(330,697,969)
III. Closing balance	1,084,255,637	1,693,508,949	350,134,445	2,218,523,143	(29,761,317)	5,316,660,857	121,023,711	5,437,684,568

The notes set out on page 59 to page 159 are components of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

Renminbi Yuan

	Attributable to shareholders of the Parent							
2010	Share capital	Capital reserve	Surplus reserve	Retained earnings	Exchange fluctuation reserve	Sub-total	Minority interests	Total shareholders' equity
I.Closing balance of last year	1,084,255,637	1,694,217,559	139,806,085	936,008,253	(5,206,464)	3,849,081,070	98,175,711	3,947,256,781
II.Movements during the year								
(i) Net profit	—	—	—	850,528,177	—	850,528,177	1,533,486	852,061,663
(ii) Other comprehensive income								
1. Exchange differences on translation of foreign operations	—	—	—	—	(14,523,773)	(14,523,773)	(3,663,572)	(18,187,345)
Total comprehensive income	—	—	—	850,528,177	(14,523,773)	836,004,404	(2,130,086)	833,874,318
(iii) Capital contribution and withdrawal by shareholders								
1. Capital contribution by minority shareholders	—	—	—	—	—	—	61,820	61,820
2. Difference arising from acquisition of minority interests in subsidiaries, net	—	(708,610)	—	—	—	(708,610)	708,610	—
(iv) Profit appropriation								
1. Transfer to surplus reserve	—	—	87,254,286	(87,254,286)	—	—	—	—
2. Dividend paid	—	—	—	(211,429,849)	—	(211,429,849)	—	(211,429,849)
III.Closing balance	1,084,255,637	1,693,508,949	227,060,371	1,487,852,295	(19,730,237)	4,472,947,015	96,816,055	4,569,763,070

The notes set out on page 59 to page 159 are components of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2011

Renminbi Yuan

	Note V	2011	2010
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		**7,884,964,903**	6,741,841,359
Refunds of taxes		**44,835,429**	45,059,699
Cash received relating to other operating activities		**151,718,503**	86,308,131
Sub-total of cash inflows from operating activities		**8,081,518,835**	6,873,209,189
Cash paid for goods and services		**(4,801,367,322)**	(4,369,499,587)
Cash paid to and on behalf of employees		**(643,605,339)**	(503,028,533)
Cash paid for all types of taxes		**(498,964,687)**	(440,429,996)
Cash paid relating to other operating activities		**(895,810,788)**	(805,909,002)
Sub-total of cash outflows from operating activities		**(6,839,748,136)**	(6,118,867,118)
Net cash flows from operating activities	46	**1,241,770,699**	754,342,071
2. Cash flows from investing activities:			
Cash received from return on investments		**16,340,677**	11,372,104
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**27,870,337**	4,476,585
Net cash received from disposal of subsidiaries and other operating entities		**—**	1,027,680
Cash received relating to other investing activities		**—**	90,128,250
Sub-total of cash inflows from investing activities		**44,211,014**	107,004,619
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		**(352,290,785)**	(408,742,421)
Cash paid for acquisition of investments		**(310,000,000)**	(4,049,141)
Cash paid relating to other investing activities		**—**	(83,168,665)
Sub-total of cash outflows from investing activities		**(662,290,785)**	(495,960,227)
Net cash flows used in investing activities		**(618,079,771)**	(388,955,608)

The notes set out on page 59 to page 159 are components of these financial statements.

For the year ended 31 December 2011

Renminbi Yuan

		Note V	2011	2010
3.	Cash flows from financing activities:			
	Cash received from capital contribution		**24,000,000**	61,821
	including: cash received from minority shareholders of subsidiaries		**24,000,000**	61,821
	Cash received from issuance of short-term bonds		**498,000,000**	498,000,000
	Cash received from borrowings		**440,984,790**	35,342,740
	Sub-total of cash inflows from financing activities		**962,984,790**	533,404,561
	Cash repayment of short-term bonds		**(500,000,000)**	—
	Cash repayment of borrowings		**(244,736,975)**	(154,851,480)
	Cash paid for distribution of dividend or profits and for interest expenses		**(357,699,681)**	(222,893,771)
	Sub-total of cash outflows from financing activities		**(1,102,436,656)**	(377,745,251)
	Net cash flows (used in)/from financing activities		**(139,451,866)**	155,659,310
4.	Effect of foreign exchange rate changes on cash and cash equivalents		**—**	—
5	Net increase in cash and cash equivalents		**484,239,062**	521,045,773
	Add: cash and cash equivalents at beginning of year		**1,569,479,328**	1,048,433,555
6.	Cash and cash equivalents at end of year	46	**2,053,718,390**	1,569,479,328

The notes set out on page 59 to page 159 are components of these financial statements.

Balance Sheet

31 December 2011

Renminbi Yuan

ASSETS	Note XI	31 December 2011	31 December 2010
CURRENT ASSETS			
Cash and bank balances		**1,796,772,759**	1,327,204,047
Bills receivable		**907,710,223**	713,684,212
Trade receivables	1	**954,599,711**	676,218,424
Prepayments		**95,270,853**	97,148,042
Other receivables	2	**343,291,085**	179,633,968
Inventories		**1,444,346,990**	1,408,830,663
Non-current assets due within one year		**1,092,595**	—
Other current assets		**300,000,000**	68,061,331
Total current assets		**5,843,084,216**	4,470,780,687
NON-CURRENT ASSETS			
Long-term receivables		**1,772,676**	4,049,142
Long-term equity investments	3	**904,227,042**	848,477,212
Fixed assets		**921,212,320**	853,289,051
Construction in progress		**103,100,459**	161,037,980
Intangible assets		**96,827,829**	97,760,789
Development expenditure		**26,594,184**	7,124,068
Deferred tax assets		**56,042,153**	40,105,036
Other non-current assets		**38,268,244**	29,378,500
Total non-current assets		**2,148,044,907**	2,041,221,778
TOTAL ASSETS		**7,991,129,123**	6,512,002,465

The notes set out on page 59 to page 159 are components of these financial statements.

31 December 2011

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	31 December 2011	31 December 2010
CURRENT LIABILITIES		
Short-term borrowings	**139,000,000**	—
Short-term bonds payable	**500,000,000**	500,000,000
Bills payable	**397,588,080**	161,550,000
Trade payables	**744,516,462**	926,208,299
Receipts in advance	**325,908,032**	187,194,276
Employee benefits payable	**5,811,415**	2,108,571
Taxes payable	**267,470,874**	159,400,121
Interests payable	**12,468,969**	6,845,833
Other payables	**119,155,961**	75,109,050
Non-current liabilities due within one year	**117,560,719**	130,550,830
Total current liabilities	**2,629,480,512**	2,148,966,980
NON-CURRENT LIABILITIES		
Provisions	**130,332,806**	87,922,443
Other non-current liabilities	**80,301,667**	24,141,667
Total non-current liabilities	**210,634,473**	112,064,110
Total liabilities	**2,840,114,985**	2,261,031,090
SHAREHOLDERS' EQUITY		
Share capital	**1,084,255,637**	1,084,255,637
Capital reserve	**1,693,282,738**	1,693,282,738
Surplus reserve	**350,134,445**	227,060,371
Retained earnings	**2,023,341,318**	1,246,372,629
Total shareholders' equity	**5,151,014,138**	4,250,971,375
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**7,991,129,123**	6,512,002,465

The notes set out on page 59 to page 159 are components of these financial statements.

Income Statement

For the year ended 31 December 2011

Renminbi Yuan

	Note XI	2011	2010
Revenue	4	**6,355,058,217**	5,096,085,525
Less: Cost of sales	4	**4,216,017,790**	3,281,874,642
Business taxes and surcharges		**39,079,597**	1,839,204
Selling expenses		**292,825,919**	306,969,893
Administrative expenses		**629,838,943**	576,908,531
Finance costs		**26,740,379**	17,855,592
Asset impairment losses		**81,068,240**	148,858,400
Add: Investment income	5	**231,090,507**	216,883,580
including: share of profits of an associate and a jointly controlled entity	5	**49,811,540**	57,303,971
Operating profit		**1,300,577,856**	978,662,843
Add: Non-operating income		**100,023,383**	47,726,323
Less: Non-operating expenses		**1,033,252**	32,558,741
including: loss on disposal of non-current assets		**825,454**	30,402,057
Total profit		**1,399,567,987**	993,830,425
Less: Income tax expense		**168,827,255**	121,287,562
Net profit		**1,230,740,732**	872,542,863
Other comprehensive income		**—**	—
Total comprehensive income		**1,230,740,732**	872,542,863

The notes set out on page 59 to page 159 are components of these financial statements.

Statement of Changes in Equity

For the year ended 31 December 2011

Renminbi Yuan

2011	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total shareholders' equity
I. Closing balance of last year	1,084,255,637	1,693,282,738	227,060,371	1,246,372,629	4,250,971,375
II. Movements during the year					
(i) Net profit	—	—	—	1,230,740,732	1,230,740,732
(ii) Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	—	—	1,230,740,732	1,230,740,732
(iii) Profit appropriation					
1. Transfer to surplus reserve	—	—	123,074,074	(123,074,074)	—
2. Dividend paid	—	—	—	(330,697,969)	(330,697,969)
III. Closing balance	1,084,255,637	1,693,282,738	350,134,445	2,023,341,318	5,151,014,138

2010	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total shareholders' equity
I. Closing balance of last year	1,084,255,637	1,693,282,738	139,806,085	672,513,901	3,589,858,361
II. Movements during the year					
(i) Net profit	—	—	—	872,542,863	872,542,863
(ii) Other comprehensive income	—	—	—	—	—
Total comprehensive income	—	—	—	872,542,863	872,542,863
(iii) Profit appropriation					
1. Transfer to surplus reserve	—	—	87,254,286	(87,254,286)	—
2. Dividend paid	—	—	—	(211,429,849)	(211,429,849)
III. Closing balance	1,084,255,637	1,693,282,738	227,060,371	1,246,372,629	4,250,971,375

The notes set out on page 59 to page 159 are components of these financial statements.

Cash Flow Statement

For the year ended 31 December 2011

Renminbi Yuan

		Note XI	2011	2010
1.	Cash flows from operating activities:			
	Cash received from sale of goods or rendering of services		**6,966,753,931**	5,786,182,979
	Refunds of taxes		**41,337,946**	40,415,611
	Cash received relating to other operating activities		**136,287,287**	89,477,574
	Sub-total of cash inflows from operating activities		**7,144,379,164**	5,916,076,164
	Cash paid for goods and services		**(4,511,957,390)**	(4,252,288,239)
	Cash paid to and on behalf of employees		**(448,324,092)**	(367,424,611)
	Cash paid for all types of taxes		**(405,837,406)**	(337,813,878)
	Cash paid relating to other operating activities		**(819,946,613)**	(436,604,098)
	Sub-total of cash outflows from operating activities		**(6,186,065,501)**	(5,394,130,826)
	Net cash flows from operating activities	6	**958,313,663**	521,945,338
2.	Cash flows from investing activities:			
	Cash received from retrieval of investments		**—**	657
	Cash received from return on investments		**196,340,677**	169,068,074
	Net cash received from disposal of fixed assets, intangible assets and other long-term assets		**25,655,044**	846,371
	Cash received relating to other investing activities		**—**	60,000,000
	Sub-total of cash inflows from investing activities		**221,995,721**	229,915,102
	Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		**(177,367,619)**	(300,304,499)
	Cash paid for acquisition of investments		**(321,000,000)**	(118,000,000)
	Cash paid relating to other investing activities		**—**	(61,213,100)
	Sub-total of cash outflows from investing activities		**(498,367,619)**	(479,517,599)
	Net cash flows used in investing activities		**(276,371,898)**	(249,602,497)

The notes set out on page 59 to page 159 are components of these financial statements.

For the year ended 31 December 2011

Renminbi Yuan

	2011	2010
3. Cash flows from financing activities:		
Cash received from issuance of short-term bonds	**498,000,000**	498,000,000
Cash received from borrowings	**368,414,694**	—
Sub-total of cash inflows from financing activities	**866,414,694**	498,000,000
Cash paid for repayment of short-term bonds	**(500,000,000)**	—
Cash repayments of borrowings	**(229,414,694)**	(14,380,964)
Cash paid for distribution of dividends or profits and for interest expenses	**(356,349,146)**	(222,495,929)
Sub-total of cash outflows from financing activities	**(1,085,763,840)**	(236,876,893)
Net cash flows (used in)/from financing activities	**(219,349,146)**	261,123,107
4. Effect of foreign exchange rate changes on cash and cash equivalents	**—**	—
5. Net increase in cash and cash equivalents	**462,592,619**	533,465,948
Add: Cash and cash equivalents at beginning of year	**1,244,200,948**	710,735,000
6. Cash and cash equivalents at end of year	**1,706,793,567**	1,244,200,948

The notes set out on page 59 to page 159 are components of these financial statements.

Notes to Financial Statements

31 December 2011

Renminbi Yuan

I. Basic Information of the Group

Zhuzhou CSR Times Electric Co., Ltd. (the "Company") is a joint stock limited company registered in Hunan Province, the People's Republic of China (the "PRC"). It was jointly established by CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (南車株洲電力機車研究所有限公司) (formerly known as CSR Group Zhuzhou Electric Locomotive Research Institute (中國南車集團株洲電力機車研究所)), CSR Qishuyan Locomotive & Rolling Stock Works (中國南車集團戚墅堰機車車輛廠), CSR Zhuzhou Electric Locomotive Co., Ltd. (南車株洲電力機車有限公司) (formerly known as CSR Group Zhuzhou Electric Locomotive Co., Ltd. (中國南車集團株洲電力機車有限公司)), CSR Investment & Leasing Co., Ltd. (南車投資租賃有限公司) (formerly known as New Leap Transportation Equipment Investment & Leasing Co., Ltd. (新力博交通裝備投資租賃有限公司)) and China Railway Large Maintenance Machinery Co., Ltd. Kunming (昆明中鐵大型養路機械集團有限公司) at the date of 26 September 2005, upon approval by the State-owned Assets Supervision and Administration Commission of the State Council (the "SASAC") of Guozi Reform [2005] 1095 Approval. The Company's registration was approved by the Administration for Industry and Commerce of Hunan Province, with the business license code 430000000009725. The H shares of the Company were listed on the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The registered office of the Company is located at Times Road, Shifeng District, Zhuzhou City, Hunan Province, the PRC. The Company and its subsidiaries (together, the "Group") are principally engaged in the application and engineering research of electric locomotive products, locomotive electrical drive technology, converter technology used for railway, industrial and civil areas, and the research, manufacture and import and export of electronic control facilities, power electronic products, electrical machines, sensors for industrial purposes.

In December 2006, the Company issued 414,644,000 Shares (including H shares issued via the exercise of the over–allotment option) with a nominal value of RMB1 each through the Hong Kong Stock Exchange. The issue price was HK$5.3 per share. The total proceeds before deducting issuing expenses amounted to HK$2,197,613,000 (equivalent to approximately RMB2,209,968,000). These H shares were listed and traded on the main board of the Hong Kong Stock Exchange in December 2006.

As at 31 December 2011, the Company had issued an aggregate of 1,084,255,637 shares as share capital, refer to Note V.31.

The Group's parent and ultimate holding company are CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (南車株洲電力機車研究所有限公司) and CSR Group (中國南車集團公司) respectively, both established in the PRC.

The financial statements were approved by the board of directors of the Company on 29 March 2012. According to the Articles of Association of the Company, the financial statements will be submitted to the general meeting for consideration.

II. Significant Accounting Policies and Estimates

1. Basis of preparation

The financial statements are prepared in accordance with the "Accounting Standards for Business Enterprises - General Principles" and 38 specific accounting standards issued by the China Ministry of Finance in February 2006, application guidance, interpretations and other related regulations issued thereafter (collectively known as the "PRC Accounting Standards").

The Company used to adopt International Financial Reporting Standards in preparing financial statements for information disclosure at the Hong Kong Stock Exchange. In accordance with the "Consultation Conclusions on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong" which was published by the Hong Kong Stock Exchange in December 2010, from this financial year, the Company decided to prepare the financial statements in accordance with "Accounting Standards for Business Enterprises" and the relevant regulations issued by the China Ministry of Finance ("PRC Accounting Standards") for information disclosure at the Hong Kong Stock Exchange. A reconciliation of the shareholders' equity and net profits for the year ended 31 December 2010 from International Financial Reporting Standards to PRC Accounting Standards is presented in Note X.6 to the financial statements.

The financial statements have been prepared on a going concern basis.

These financial statements are prepared under the historical cost convention, except for certain financial instruments and investment property, which are measured at fair value. If the assets are impaired, corresponding provisions for impairment shall be made according to relevant rules.

2. Statement of compliance with accounting standards for business enterprises

The financial statements present fairly and completely, the financial position of the Group and the Company as at 31 December 2011 and the financial performance and the cash flows for the year then ended in accordance with Accounting Standards for Business Enterprises.

3. Accounting period

The accounting period of the Group is from 1 January to 31 December of each calendar year.

4. Functional currency

The Group's functional and presentation currency is Renminbi ("RMB"). Unless otherwise stated, the unit of the currency is RMB yuan.

The subsidiaries, jointly controlled enterprises and associates of the Group may determine their own functional currencies based on their specific economic environments. In the preparation of the financial statements, their functional currencies shall be translated into RMB.

II. Significant Accounting Policies and Estimates (continued)

5. Business combinations

A business combination is a transaction or event that brings together two or more separate entities into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. For a business combination involving entities under common control, the party that, on the combination date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is a party being acquired. The combination date is the date on which the acquirer effectively obtains control of the party being acquired.

Assets and liabilities that are obtained by the acquirer in a business combination shall be measured at their carrying amounts at the combination date as recorded by the party being acquired. The difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination (or the aggregate face value of shares issued as consideration) shall be adjusted to share premium under capital surplus. If the capital surplus is not sufficient to absorb the difference, any excess shall be adjusted against retained earnings.

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the combination. For a business combination not involving entities under common control, the party that, on the acquisition date, obtains control of another entity participating in the combination is the acquirer, while that other entity participating in the combination is the acquiree. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquirer shall measure the acquiree's identifiable assets, liabilities and contingent liabilities acquired in the business combination at their fair values on the acquisition date.

Goodwill is initially recognised at cost being the excess of the aggregate fair value of the consideration transferred (or the fair value of the equity securities issued) and any fair value of the acquirer's previously held equity interest in the acquiree over the net identifiable assets acquired at the acquisition date. After initial recognition, goodwill is measured at cost less any accumulated impairment losses. In the event that the sum of the fair value of the consolidation consideration paid (or the fair value of the equity securities issued) and the fair value of the equity interests in the acquiree held before the date of acquisition is less than the share of the fair value of the identifiable net assets of the acquiree acquired in the consolidation, the measurement of the fair value of the various identifiable assets, liabilities and contingent liabilities of the acquiree acquired and the fair value of the consolidation consideration paid (or the fair value of the equity securities issued) and the fair value of the equity interests in the acquiree held before the date of acquisition shall first be reviewed. If the sum of this consideration and other items mentioned above is lower than the fair value of the net identifiable assets acquired, the difference is, after reassessment, recognised in profit or loss of the current period.

II. Significant Accounting Policies and Estimates (continued)

6. Consolidated financial statements

The consolidation scope of the consolidated financial statements is determined on the basis of control, including the financial statements for the year ended 31 December 2011 of the Company and all of its subsidiaries. A subsidiary is an enterprise or entity that is controlled by the Company.

In the preparation of the consolidated financial statements, when the accounting policies of a subsidiary are different from those of the Company, the Company shall make adjustments to the financial statements of the subsidiary based on its own accounting policies. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Where the amount of losses of a subsidiary attributable to minority shareholders exceeds the opening balance of owners' equity attributable to minority shareholders of the subsidiary, the excess shall still be allocated against minority interests. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

For subsidiaries acquired through business combinations not involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements, from the date on which the Group obtains control, till the Group ceases to have the control on it. While preparing the consolidated financial statements, the acquirer shall adjust the subsidiary's financial statements, on the basis of the fair values of the identifiable assets, liabilities and contingent liabilities recognised on the acquisition date.

For subsidiaries acquired through business combinations involving entities under common control, the operating results and cash flows of the acquiree shall be included in the consolidated financial statements from the beginning of the period in which the combination occurs. While preparing the comparative financial statements, adjustments are made to related items in the financial statements for the prior period as if the reporting entity established through combination had been in existence since the ultimate controller began to excise control.

7. Cash and cash equivalents

Cash comprises the Group's cash on hand and deposits that can be readily withdrawn on demand. Cash equivalents are short-term highly liquid investments held by the Group, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

8. Foreign currency transactions and foreign currency translation

The Group translates the amounts of foreign currency transactions occurred into its functional currency.

Foreign currency transactions are initially recorded using the functional currency rates ruling at the transaction dates. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. All the resulting exchange differences are taken to profit or loss, except for those relating to foreign currency borrowings specifically for the construction and acquisition of qualifying assets, which are capitalised in accordance with the principle of capitalisation of borrowing costs. Non-monetary foreign currency items measured at historical cost shall still be translated at the spot exchange rate prevailing on the transaction date, and the amount denominated in the functional currency is not changed. Non-monetary foreign currency items measured at fair value are translated at the spot exchange rate prevailing at the date on which the fair values are determined. The exchange difference thus resulted are recognised in profit or loss or as other comprehensive income of the current period.

II. Significant Accounting Policies and Estimates (continued)

8. Foreign currency transactions and foreign currency translation (continued)

For foreign operations, the Group translates their functional currency amounts into RMB in preparing the financial statements as follows: asset and liability items in the balance sheet are translated using the spot exchange rates at the balance sheet date, and equity items other than "retained earnings" are translated using the spot exchange rates at the dates of transactions; revenue and expense items in the income statement are translated using the average exchange rate for the period during which the transactions occur. The resulted exchange differences are recognised in other comprehensive income and presented as a separate component of equity in the balance sheet. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation recognised is profit or loss of the current period. If the disposal only involves a portion of a particular foreign operation, the component of other comprehensive income relating to that particular foreign operation recognised is profit or loss of the current period on a pro-rata basis.

Foreign currency cash flows and the cash flows of foreign subsidiaries are translated using the average exchange rate for the period during which the cash flows occur. The effect of exchange rate changes on cash is separately presented as an adjustment item in the cash flow statement.

9. Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Recognition and derecognition

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of a financial instrument.

The Group derecognises a financial asset (or part of a financial asset, or part of a group of similar financial assets) when the following criteria are met:

(1) the rights to receive cash flows from the financial asset have expired or

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

If the underlying obligation of a financial liability has been discharged or cancelled or has expired, the financial liability is derecognised. If an existing financial liability is replaced by the same creditor with a new financial liability that has substantially different terms, or if the terms of an existing financial liability are substantially revised, such replacement or revision is accounted for as the derecognition of the original liability and the recognition of a new liability, and the resulted difference is recognised in profit or loss of the current period.

Regular way purchase or sale of financial assets are recognised and derecognised using trade date accounting or settlement date accounting. Regular way purchase or sale of financial assets refers to that the financial assets are delivered to or by the Group under the terms of a contract within a period as specified by law or general practice. The trade date and settlement date are the dates that an asset is delivered to or by the Group.

II. Significant Accounting Policies and Estimates (continued)

9. Financial instruments (continued)

Classification and measurement of financial assets

The Group's Financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, financial assets available-for-sale and derivatives designated as effective hedging instruments. A financial asset is initially recognised at fair value. In the case of financial assets at fair value through profit or loss, relevant transaction costs are directly charged to the profit or loss of the current period; transaction costs relating to financial assets of other categories are included in the value initially recognised.

Subsequent measurement of a financial asset is determined by its category:

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 those designated upon initial recognition as financial assets at fair value through profit or loss. A financial asset held for trading is the financial asset that meets one of the following conditions: 1) the financial asset is acquired for the purpose of selling it in the short term; 2) the financial asset is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits; 3) the financial asset is a derivative, except for a derivative that is designated as an effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price from an active market) whose fair value cannot be reliably measured. For such kind of financial assets, fair values are adopted for subsequent measurement. All the realised or unrealised gains or losses on these financial assets are recognised in the profit or loss of the current period. Dividend income or interest income relating to financial assets at fair value through profit or loss is charged to the profit or loss of the current period.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturity date that an entity has the positive intention and ability to hold to maturity. Such kind of financial assets is subsequently measured at amortised cost using the effective interest method. Gains or losses arising from amortisation or impairment and derecognition are recognised in the profit or loss of the current period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such kind of financial assets is subsequently measured at amortised cost using the effective interest method. Gains or losses arising from amortisation or impairment are recognised in the profit or loss of the current period.

II. Significant Accounting Policies and Estimates (continued)

9. Financial instruments (continued)

Classification and measurement of financial assets (continued)

Financial assets available-for-sale

Financial assets available-for-sale are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss. After initial recognition, financial assets available-for-sale are measured at fair value. The premium/discount is amortised using effective interest method and recognised as interest income or expense. A gain or loss arising from a change in the fair value of an available-for-sale financial asset is recognised as other comprehensive income in capital surplus, except for impairment losses and foreign exchange gains and losses resulted from monetary financial assets which are recognised in profit or loss, until the financial asset is derecognised or determined to be impaired, at which time the accumulated gain or loss previously recognised is transferred to the profit or loss of the current period. Interests and dividends relating to an available-for-sale financial asset are recognised in the profit or loss of the current period.

Investments in equity instruments, which do not have quoted prices in an active market and whose fair values cannot be reliably measured, are measured at cost.

Classification and measurement of financial liabilities

The Group's financial liabilities are, on initial recognition, classified into financial liabilities at fair value through profit or loss, other financial liabilities or derivatives designated as effective hedging instruments. For financial liabilities at fair value through profit or loss, relevant transaction costs are directly recognised in profit or loss of the current period, and transaction costs relating to other financial liabilities are included in the initial recognition amounts.

The subsequent measurement of a financial liability is determined by its category:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and those designated upon initial recognition as financial liabilities at fair value through profit or loss. A financial liability held for trading is the financial liability that meets one of the following criteria: 1) the financial liability is assumed for the purpose of repurchasing it in the short-term; 2) the financial liability is a part of a portfolio of identifiable financial instruments that are collectively managed, and there is objective evidence indicating that the enterprise recently manages this portfolio for the purpose of short-term profits; 3) the financial liability is a derivative, except for a derivative that is designated as effective hedging instrument, or a financial guarantee contract, or a derivative that is linked to and must be settled by delivery of an unquoted equity instrument (without a quoted price in an active market) whose fair value cannot be reliably measured. For such kind of financial liabilities, fair values are adopted for subsequent measurement. All the realised or unrealised gains or losses on these financial liabilities are recognised in the profit or loss in the current period.

Other financial liabilities

After initial recognition, such kind of financial liabilities are measured at amortised costs by using the effective interest method.

Fair value of financial instruments

If there is an active market for a financial asset or financial liability, the quoted price in the active market is used to establish the fair value of the financial asset or financial liability. If no active market exists for a financial instrument, its fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions between knowledgeable and willing parties, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing.

II. Significant Accounting Policies and Estimates (continued)

9. Financial instruments (continued)

Impairment of financial assets

The Group assesses at the balance sheet date the carrying amount of every financial asset. If there is objective evidence indicating that a financial asset may be impaired, a provision is provided for the impairment. Objective evidence that a financial asset is impaired is one or more events that occur after the initial recognition of the asset and have an impact (which can be reliably estimated) on the expected future cash flows of the financial asset.

Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on a financial asset has incurred, the carrying amount of the asset is reduced to the present value of expected future cash flows (excluding future credit losses that have not been incurred). The present value of expected future cash flows is discounted at the financial asset's original effective interest rate (i.e. effective interest rate computed on initial recognition) and includes the value of any related collateral. If a financial asset has a variable interest rate, the Group uses the current effective interest rate(s) stipulated in the contract as the discount rate to calculate the present value of future cash flows.

For a financial asset that is individually significant, the asset is individually assessed for impairment, and the amount of impairment is recognised in profit or loss if there is objective evidence of impairment. For a financial asset that is not individually significant, it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. If no objective evidence of impairment incurs for an individually assessed financial asset (whether the financial asset is individually significant or not individually significant), it is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment again. Assets for which an impairment loss is individually recognised is not included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment.

If subsequent to the Group's recognition of an impairment loss on a financial asset carried at amortised cost, there is objective evidence of a recovery in value of the financial asset and the recovery is related to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and recognised in profit or loss. However, the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment loss not been recognised at the date the impairment is reversed.

Financial assets available-for-sale

If there is objective evidence that an available-for-sale asset is impaired, the accumulated loss arising from decline in fair value previously recognised in other comprehensive income is transferred out and recognised in profit or loss. The accumulated loss that transferred out from other comprehensive income is the difference between the acquisition cost (net of any principal repayment and amortisation) and the current fair value, less any impairment loss on the financial asset previously recognised in profit or loss.

If after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed with the amount of the reversal recognised in profit or loss. The impairment loss on an available-for-sale equity instrument is not reversed through profit or loss, and any increase of fair value that occurs after the impairment is recognised directly in other comprehensive income.

II. Significant Accounting Policies and Estimates (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at cost

If there is objective evidence that such an asset is impaired, the difference between its carrying amount and the present value of expected future cash flows which are discounted at the current market interest rate is recognised as an impairment loss in profit or loss. Once an impairment loss is recognised, it can not be reversed.

For a long-term equity investment accounted for according to *Accounting Standards for Business Enterprises No. 2 - Long-term Equity Investments*, which is not quoted in an active market and for which the fair value cannot be reliably measured, any impairment is accounted for in accordance with the above principles.

Transfer of financial assets

The financial asset is derecognised if the Group transfers substantially all the risks and rewards of ownership of the financial asset; the financial asset is not derecognised if the Group retains substantially all the risks and rewards of ownership of the financial asset.

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, the transaction is accounted for as follows: (i) if the Group has not retained control, the financial asset is derecognised and any resulting assets or liabilities is recognised; or (ii) if the Group has retained control, the financial asset is recognised to the extent of its continuing involvement in the transferred financial asset and an associated liability is recognised.

10. Inventories

Inventories includes raw material, work in progress, finished goods and turnover materials.

Inventories are initially carried at actual cost. Cost of inventories comprises all costs of purchase, costs of conversion and other costs. The actual cost of inventories transferred out is determined by using the weighted average method. Turnover materials include low value consumables and packing materials, which are amortised by using the immediate write-off method.

The Group adopts a perpetual inventory system.

At the balance sheet date, inventories are measured at the lower of cost and net realisable value. If the cost of inventories is higher than the net realisable value, a provision for decline in value of inventories is recognised in profit or loss. If factors that previously resulted in the provision for decline in value of inventories are no longer exist, the amount of the write-down is reversed. The reversal is limited to the amount originally provided for provision for the decline in value of inventories, and is recognised in the profit or loss of the current period.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale and relevant taxes. The provision for decline in value of raw materials is made on an individual basis and that for finished goods is made on an individual basis. For items of inventories that relate to a product line that is produced and marketed in the same geographical area, have the same or similar end uses or purposes, and cannot be practicably evaluated separately from other items, provision for decline in value of inventories can be determined on an aggregate basis.

II. Significant Accounting Policies and Estimates (continued)

11. Long-term equity investments

Long-term equity investments include investments in subsidiaries, jointly controlled enterprises and associates, and investments where the Group does not have control, joint control or significant influence over the investees and which are not quoted in an active market and the fair values of which cannot be reliably measured.

A long-term equity investment is recorded at its initial investment cost on acquisition. For a long-term equity investment acquired through a business combination, the initial investment cost is determined as follows: for a business combination involving enterprises under common control, the initial investment cost of the long-term equity investment is the acquirer's share of the owners' equity of the party being absorbed at the combination date; for a business combination involving enterprises not under common control, the initial investment cost of the long-term equity investment is the cost of combination (for a business combination not involving enterprises under common control achieved in stages that involves multiple exchange transactions, the initial investment cost is carried at the aggregate of the carrying amount of the acquirer's previously held equity interest in the acquiree and the new investment cost incurred on the acquisition date). The cost of combination is the aggregate of the fair values, at the acquisition date, of the assets given, liabilities incurred or assumed, and equity securities issued by the acquirer, in exchange for control of the acquiree. For a long-term equity investment acquired otherwise than through a business combination, the initial investment cost is determined as follows: for a long-term equity investment acquired by paying cash, the initial investment cost is the actual purchase price paid and those costs, taxes and other necessary expenditures directly attributable to the acquisition of the long-term equity investment; for a long-term equity investment acquired by the issue of equity securities, the initial investment cost is the fair value of the securities issued; for a long-term equity investment contributed by the investor, the initial investment cost is the value stipulated in the investment contract or agreement, except where the value stipulated in the investment contract or agreement is not fair.

For a long-term equity investment where the Group does not have joint control or significant influence over the investee, the investment is not quoted in an active market and its fair value cannot be reliably measured, the long-term investment is accounted for using the cost method. And for a long-term equity investment where the Company can exercise control over the investee, the long-term investment is accounted for using the cost method in the Company's financial statements. Control is the power to govern the financial and operating policies of an enterprise so as to obtain benefits from its operating activities.

Under the cost method, the long-term equity investment is measured at its initial investment cost. Except for the cash dividend or profit distribution declared but unpaid which are included in the price or consideration paid upon acquisition of a long-term equity investment, the Company recognises its share of cash dividends or profit distributions declared by the investee as investment income in the current period, and considers whether the long-term equity investment is impaired according to the policies related to asset impairment.

The equity method is adopted when the Group has joint control, or exercises significant influence on the investee. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the financial and operational decisions relating to the activity require the unanimous consent of the parties sharing control. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control with other parties over those policies.

II. Significant Accounting Policies and Estimates (continued)

11. Long-term equity investments (continued)

Under the equity method, where the initial investment cost of a long-term equity investment exceeds the investing enterprise's interest in the fair values of the investee's identifiable net assets at the acquisition date, no adjustment is made to the initial investment cost. Where the initial investment cost is less than the investing enterprise's interest in the fair values of the investee's identifiable net assets at the acquisition date, the difference is charged to the profit or loss of the current period, and the cost of the long-term equity investment is adjusted accordingly.

Under the equity method, the Group recognises its share of the net profits or losses made by the investee as investment income or losses, and adjusts the carrying amount of the investment accordingly. The Group recognises its share of the investee's net profits or losses after making appropriate adjustments to the investee's net profits and losses based on the fair value of the investee's identifiable assets at the acquisition date, using the Group's accounting policies and periods, and eliminating the portion of the profits or losses arising from internal transactions with its jointly controlled enterprises and associates, attributable to the investing entity according to its share ratio (but impairment losses for assets arising from internal transactions shall be recognised in full). The carrying amount of the investment is reduced based on the Group's share of any profit distributions or cash dividends declared by the investee. The Group's share of net losses of the investee is recognised to the extent the carrying amount of the investment together with any long-term interests that in substance form part of its net investment in the investee is reduced to zero, except that the Group has the obligations to assume additional losses. The Group adjusts the carrying amount of the long-term equity investment for any changes in shareholders' equity of the investee (other than net profits or losses) and includes the corresponding adjustments in the shareholders' equity of the Group.

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in the profit or loss of the current period. For a long-term equity investment accounted for using the equity method, any changes in the shareholders' equity of the investee included in the shareholders' equity of the Group is transferred to the profit or loss of the current period on a pro-rata basis according to the proportion disposed of.

For a long-term equity investment in subsidiaries, jointly controlled enterprise or associate, refer to Note II.21 for the test for impairment and recognition of provision for impairment. For other long-term equity investment where the investment is not quoted in an active market and its fair value cannot be measured reliably, refer to Note II.9 for the test for impairment and recognition of provision for impairment.

II. Significant Accounting Policies and Estimates (continued)

12. Fixed assets

A fixed asset is recognised only when the economic benefits associated with the asset will probably flow into the Group and the cost of the asset can be measured reliably. Subsequent expenditure incurred for a fixed asset that meet the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognised. Otherwise, such expenditure shall be recognised in the profit or loss for the period in which they are incurred.

Fixed assets are initially measured at cost. The cost of a purchased fixed asset comprises the purchase price, relevant taxes and any directly attributable expenditure for bringing the asset to working condition for intended use.

Depreciation is calculated using the straight-line method. The estimated useful lives, estimated residual value rates and annual depreciation rates of each category of fixed asset are presented as follows:

	Useful life	Estimated residual value rate	Annual depreciation rate
Buildings	20-45 year	5%	2.11%-4.75%
Machinery	10 year	5%	9.50%
Vehicles	5 year	5%	19.00%
Office facilities and others	5 year	5%	19.00%

The Group reviews the useful life and estimated net residual value of a fixed asset and the depreciation method applied at least at each financial year-end, and make adjustments if necessary.

For the test of impairment and recognition of provision for impairment related to a fixed asset, refer to Note II.21.

13. Construction in progress

The cost of construction in progress is determined according to the actual expenditure incurred for the construction, including all necessary construction expenditure incurred during the construction period , borrowing costs that shall be capitalised before the construction gets ready for its intended use and other relevant expenses.

A construction in progress is transferred to fixed asset when the asset is ready for its intended use.

For the test of impairment and recognition of provision for impairment related to construction in progress, refer to Note II.21.

II. Significant Accounting Policies and Estimates (continued)

14. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowing of the funds. Borrowing costs include interest, amortisation of discounts or premiums related to borrowings, ancillary costs incurred in connection with the arrangement of borrowings, and exchange differences arising from foreign currency borrowings.

The borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised. The amounts of other borrowing costs incurred are recognised as an expense in the period in which they are incurred. Qualifying assets are assets (fixed assets, investment property, inventories, etc.) that necessarily take a substantial period of time for acquisition, construction or production to get ready for their intended use or sale.

The capitalisation of borrowing costs commences only when all of the following conditions are satisfied:

(1) expenditures for the asset are being incurred;

(2) borrowing costs are being incurred; and

(3) activities relating to the acquisition, construction or production of the asset that are necessary to prepare the asset for its intended use or sale have commenced.

Capitalisation of borrowing costs ceases when the qualifying asset being acquired, constructed or produced becomes ready for its intended use or sale. Any borrowing costs subsequently incurred are recognised as an expense in the period in which they are incurred.

During the capitalisation period, the amount of interest to be capitalised for each accounting period shall be determined as follows:

(1) Where funds are borrowed for a specific purpose, the amount of interest to be capitalised is the actual interest expense incurred on that borrowing for the period less any bank interest earned from depositing the borrowed funds before being used on the asset or any investment income on the temporary investment of those funds.

(2) Where funds are borrowed for a general purpose, the amount of interest to be capitalised on such borrowings is determined by applying a weighted average interest rate to the weighted average of the excess amounts of accumulated expenditure on the asset over and above the amounts of specific-purpose borrowings.

Capitalisation of borrowing costs is suspended during periods in which the acquisition, construction or production of a qualifying asset is interrupted by activities other than those necessary to prepare the asset for its intended use or sale, when the interruption is for a continuous period of more than 3 months. Borrowing costs incurred during these periods are recognised as an expense of the current period until the acquisition, construction or production is resumed.

II. Significant Accounting Policies and Estimates (continued)

15. Intangible assets

An intangible asset shall be recognised only when it is probable that the economic benefit associated with the asset will flow to the enterprise and the cost of the asset can be measured reliably. Intangible assets are measured initially at cost. However, intangible assets acquired in a business combination with a fair value that can be measured reliably are recognised separately as intangible assets and measured at the fair value.

The useful life of an intangible asset is determined according to the period over which it is expected to generate economic benefits for the Group. An intangible asset is regarded as having an indefinite useful life when there is no foreseeable limit to the period over which the asset is expected to generate economic benefits for the Group.

The useful lives of the intangible assets are as follows:

	Useful life
Land use rights	40-50 years
Patents, Licenses and technical know-how	5-10 years
Software licenses	3-10 years

Land use rights that are purchased by the Group are accounted for as intangible assets. Buildings, such as plants that are developed and constructed by the Group, and the relevant land use rights and buildings, are accounted for as intangible assets and fixed assets, respectively. Payments for the land and buildings purchased are allocated between the land use rights and the buildings; if they cannot be reasonably allocated, all of the land use rights and buildings are accounted for as fixed assets.

An intangible asset with a finite useful life is amortised using the straight-line method over its useful life. For an intangible asset with a finite useful life, the Group reviews the useful life and amortisation method at least at each financial year-end and makes adjustment if necessary.

An intangible asset with an indefinite useful life is tested for impairment annually, irrespective of whether there is any indication that it may be impaired. Such asset is not amortised, but its useful life is reassessed in each accounting period. If there is evidence indicating that the useful life of the intangible asset is finite, it is accounted for using the above accounting policies applicable to intangible assets with finite useful lives.

The Group classifies the expenditure on an internal research and development project into expenditure on the research phase and expenditure on the development phase. Expenditure on the research phase of an internal research and development project is recognised in the profit or loss for the period in which it is incurred. Expenditure on the development phase is capitalised when the Group can demonstrate all of the following: (i) the technical feasibility of completing the intangible asset so that it will be available for use or sale; (ii) the intention to complete the intangible asset and use or sell it; (iii) how the intangible asset will generate probable future economic benefits. Among other things, the Group can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset; (iv) the availability of adequate technical, financial and other resources to complete the development and the ability to use or sell the intangible asset; and (v) its ability to measure reliably the expenditure attributable to the intangible asset during its development phase. Expenditure on the development phase that does not meet the above criteria is recognised in the profit or loss for the period in which it is incurred.

For the test of impairment and recognition of provision for impairment related to an intangible asset, refer to Note II.21.

II. Significant Accounting Policies and Estimates (continued)

16. Provisions

Except for contingent consideration transferred and contingent liability assumed in business combinations, the Group recognises an obligation related to a contingency as a provision when all of the following conditions are satisfied:

(1) the obligation is a present obligation of the Group;

(2) it is probable that an outflow of economic benefits from the Group will be required to settle the obligation; and

(3) the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation, with comprehensive consideration of factors such as the risks, uncertainty and time value of money relating to a contingency. The carrying amount of a provision is reviewed at the balance sheet date. If there is clear evidence that the carrying amount does not reflect the current best estimate, the carrying amount is adjusted to the best estimate.

17. Revenue

Revenue is recognised only when it is probable that the associated economic benefits will flow into the Group, its amount can be measured reliably, and all of the following conditions are satisfied.

Revenue from the sales of goods

The Group recognised the revenue when it has transferred to the buyer the significant risks and rewards of ownership of the goods; the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the associated costs incurred or to be incurred can be measured reliably. The amount of revenue arising from the sale of goods is determined in accordance with the consideration received or receivable from the buyer under contract or agreement, except where the consideration received or receivable under contract or agreement is not fair. Where the consideration receivable under contract or agreement is deferred, such that the arrangement is in substance of a financing nature, the amount of revenue arising on the sale of goods is measured at the fair value of the consideration receivable.

Revenue from the rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably at the balance sheet date, revenue associated with the transaction is recognised using the percentage of completion method, or otherwise, the revenue is recognised to the extent of costs incurred that are expected to be recoverable. The outcome of a transaction involving rendering of services can be estimated reliably when all of the following conditions are satisfied: the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the Group; the stage of completion of the transaction can be measured reliably; the costs incurred and to be incurred for the transaction can be measured reliably. The Group determines the stage of completion of a transaction involving the rendering of services by using the proportion of costs incurred to date to the estimated total costs. The total service revenue on a transaction involving rendering of services is determined in accordance with the consideration received or receivable from the recipient of services under contract or agreement, except where the consideration received or receivable under contract or agreement is not fair.

When the Group has entered into a contract or agreement with other enterprises comprising both sales of goods and rendering of services, if the sales of goods component and the rendering of services component can be separately identified and measured, they are accounted for separately; if the sales of goods and the rendering of services cannot be separately identified, or can be separately identified but cannot be separately measured, the contract is treated as the sales of goods.

II. Significant Accounting Policies and Estimates (continued)

17. Revenue (continued)

Interest income

Interest income is recognised on a time proportion basis for which the Group's currency fund is used by others and the effective interest rate.

Dividend income

Dividend income is recognised when shareholders obtain the rights to receive dividends.

Lease income

Lease income from operating leases is recognised on a straight-line basis over the lease term. Contingent rents are charged to profit or loss in the period in which they actually arise.

18. Government grants

Government grant is recognised when the Group can comply with the conditions attached to it and it can be received. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at fair value; if fair value is not reliably determinable, it is measured at a nominal amount. A government grant related to income is accounted as follows: (a) if the grant is a compensation for related expenses or losses to be incurred in subsequent periods, the grant is recognised as deferred income, and recognised in profit or loss over the periods in which the related costs are recognised; (b) if the grant is a compensation for related expenses or losses already incurred, it is recognised immediately in profit or loss of the current period. A government grant related to an asset shall be recognised as deferred income, and evenly amortised to profit or loss over the useful life of the related asset. However, a government grant measured at a nominal amount is recognised immediately in the profit or loss of the current period.

19. Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or an expense in the profit or loss of the current period, or recognised directly in shareholders' equity if it arises from a business combination or relates to a transaction or event which is recognised directly in shareholders' equity.

The Group measures a current tax asset or liability arising from the current and prior periods based on the amount of income tax expected to be paid by the Group or returned by tax authority calculated according to related tax laws.

For temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts, and temporary differences between the carrying amounts and the tax bases of items, the tax bases of which can be determined for tax purposes, but which have not been recognised as assets and liabilities, deferred taxes are provided using the liability method.

A deferred tax liability is recognised for all taxable temporary differences, except:

(1) where the taxable temporary differences arise from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (i) the transaction is not a business combination; and (ii) at the time of the transaction, it affects neither accounting profit nor taxable profit or deductible loss.

(2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled entities, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not be reversed in the foreseeable future.

II. Significant Accounting Policies and Estimates (continued)

19. Income tax (continued)

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

(1) where the deferred tax asset arises from a transaction that is not a business combination and, at the time of the transaction, neither the accounting profit nor taxable profit or deductible loss is affected.

(2) in respect of the deductible temporary differences associated with investments in subsidiaries, associates and interests in jointly controlled entities, a deferred tax asset is only recognised to the extent that it is probable that the temporary differences will be reversed in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized in the future.

At the balance sheet date, 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, according to the requirements of tax laws. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Group expects at the balance sheet date, to recover the assets or settle the liabilities.

The carrying amount of deferred tax assets is reviewed at the balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available in future periods to allow the deferred tax assets to be utilized. Unrecognised deferred tax assets are reassessed at the balance sheet date 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 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.

20. Leases

A finance lease is a lease that transfers in substance all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease.

In the case of the lessee of an operating lease

Lease payments under an operating lease are recognised by a lessee on a straight-line basis over the lease term, and either included in the cost of the related asset or charged to the profit or loss of the current period. Contingent rents are charged to profit or loss in the period in which they actually arise.

In the case of the lessor of an operating lease

Rent income under an operating lease is recognised by a lessor on a straight-line basis over the lease term, through profit or loss. Contingent rents are charged to profit or loss in the period in which they actually arise.

In the case of the lessor of a finance lease

For an asset that is leased out under a finance lease, the aggregate of the minimum lease receipts at the inception of the lease and the initial direct costs is recorded as a finance lease receivable, and unguaranteed residual value is recorded at the same time; the difference between the aggregate of the minimum lease receipt, initial direct costs, and unguaranteed residual value, and the aggregate of their present values, is recognised as unearned finance income, which is amortised using the effective interest rate method over each period during the lease term. Contingent rents are charged to profit or loss in the period in which they actually arise.

II. Significant Accounting Policies and Estimates (continued)

21. Impairment of assets

The Group determines the impairment of assets, other than the impairment of inventories, deferred income taxes, financial assets and long-term equity investments, which are accounted for using the cost method and have no quoted market prices in active markets, and whose fair value cannot be reliably measured, using the following methods:

The Group assesses at the balance sheet date whether there is any indication that an asset may be impaired. If any indication exists that an asset may be impaired, the Group estimates the recoverable amount of the asset and performs test for impairment. Goodwill arising from a business combination and an intangible asset with an indefinite useful life are tested for impairment at least at each year-end, irrespective of whether there is any indication that the asset may be impaired. Intangible assets that have not been ready for intended use are tested for impairment each year.

The recoverable amount of an asset is the higher of its fair value less costs to sell and the present value of the future cash flow expected to be derived from the asset. The Group estimates the recoverable amount on an individual basis. If it is not possible to estimate the recoverable amount of the individual asset, the Group determines the recoverable amount of the asset group to which the asset belongs. Identification of an asset group is based on whether major cash inflows generated by the asset group are largely independent of the cash inflows from other assets or asset groups.

When the recoverable amount of an asset or asset group is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The reduction in carrying amount is treated as impairment loss and recognised in the profit or loss of the current period. A provision for impairment loss of the asset is recognised accordingly.

For the purpose of impairment testing, the carrying amount of goodwill acquired in a business combination is allocated from the acquisition date on a reasonable basis, to each of the related asset groups; if it is impossible to allocate to the related asset groups, it is allocated to each of the related sets of asset groups. Each of the related asset groups or sets of asset groups is an asset group or set of asset group that is able to benefit from the synergies of the business combination and shall not be larger than a reportable segment determined by the Group.

In testing an asset group or a set of asset groups to which goodwill has been allocated for impairment, if there is any indication of impairment, the Group firstly tests the asset group or set of asset groups excluding the amount of goodwill allocated for impairment, i.e., it determines and compares the recoverable amount with the related carrying amount and recognise any impairment loss. After that, the Group tests the asset group or set of asset groups including goodwill for impairment, the carrying amount (including the portion of the carrying amount of goodwill allocated) of the related asset group or set of asset groups is compared to its recoverable amount. If the carrying amount of the asset group or set of asset groups is higher than its recoverable amount, the amount of the impairment loss firstly reduces the carrying amount of the goodwill allocated to the asset group or set of asset groups, and then reduces the carrying amount of other assets (other than the goodwill) within the asset group or set of asset groups, pro rata on the basis of the carrying amount of each asset.

Once the above impairment loss is recognised, it cannot be reversed in subsequent accounting periods.

22. Employee benefits

Employee benefits are all forms of consideration given and other relevant expenditures incurred by the Group in exchange for service rendered by employees. In the accounting period in which an employee has rendered service to the Group, the employee benefits payable is recognised as a liability. For employee benefits payable due in more than 1 year after the balance sheet date, if the discounted value is significant, it is presented at the present value.

The employees of the Group participate in social insurance, such as pension, unemployment insurance, etc., and a housing contribution fund, which are managed by the local government, and the relevant expenditure is recognised, when incurred, in the costs of the relevant assets or the profit or loss of the current period.

II. Significant Accounting Policies and Estimates (continued)

23. Distribution of profit

The cash dividend of the Company is recognised as a liability after being approved in a shareholders' meeting.

24. Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, they are regarded as related parties. Two or more parties are also regarded as related parties if they are subject to control or jointly control from the same party.

25. Segment reporting

The Group identifies operating segments based on the internal organisation structure, managerial requirements and internal reporting system, identifies reportable segments based on operating segments and discloses segment information by operating segment.

An operating segment is a component of the Group that meets all the following conditions:

(1) it engages in business activities from which it may earn revenues and incur expenses;

(2) its operating results are regularly reviewed by the Company's management to make decisions about resources to be allocated to the segment and assess its performance; and

(3) the Group is able to obtain the relevant accounting information such as its financial situation, operating results and cash flows.

If two or more segments have similar economic characteristics and meet certain conditions, then they can be aggregated into a single operating segment.

26. Significant accounting estimates

The preparation of the financial statements requires management to make judgments, estimates that will affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities at the balance sheet date. 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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the future accounting periods, are described below.

Impairment of trade receivables

Impairment of trade receivables is recognised based on the recoverability of receivables. Impairment of trade receivables is recognised where there is indication that a receivable is not recoverable. Judgments and estimates are required in recognising impairment of trade receivables . The difference (if any) between the re-estimated value and the current estimate will impact the carrying amount of a receivable in the period in which the estimate is changed.

II. Significant Accounting Policies and Estimates (continued)

26. Significant accounting estimates (continued)

Estimation uncertainty (continued)

Provision for impairment of inventories

According to the accounting policy for inventories, the Group adopts the lower of cost and net realisable value to measure inventories, and recognises provision for impairment of inventories on the condition that the cost of them is higher than the net realisable value or they are slow-moving or obsolete. At the end of each year, the Group will review whether a single inventory is an obsolete and slow-moving item and whether the net realisable value is lower than its cost. The difference (if any) between the re-estimated value and the current estimate will impact the carrying amount of the inventory in the period in which the estimate is changed.

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 utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profit together with future tax planning strategies.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the present value of the future expected cash flows from the asset groups or sets of asset groups to which the goodwill is allocated. Estimating the present value requires the Group to make an estimate of the expected future cash flows from the asset groups or sets of asset groups and also choose a suitable discount rate in order to calculate the present value of those cash flows.

Development expenditure

Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash flows from the assets, applicable discount rates and the expected period of benefits.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the balance sheet date. Intangible assets with indefinite useful lives are tested for impairment annually and at other times when such indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Where the carrying amount of an asset or asset group is higher than its recoverable amount (i.e. the higher of its fair value less costs to sell and the present value of the future cash flows expected to be derived from it), it is indicated that such asset or asset group is impaired. The fair value less costs to sell is determined with reference to the price in the relevant sales agreement or an observable market price in an arm's length transaction, adjusted for incremental costs that would be directly attributable to the disposal of the asset or asset group. When calculating the present value of expected future cash flows from an asset or asset group, management shall estimate the expected future cash flows from the asset or asset group and choose a suitable discount rate in order to calculate the present value of those cash flows.

Provision for warranties

The Group makes product warranty provision for the sales of some products. Management estimates future maintenance expense based on the historical maintenance experience of products and translates it into the present value by selecting an appropriate discount rate to recognise provision for warranties.

III. Taxes

1. Major categories of taxes and respective tax rates

Major categories of taxes and respective tax rates of the Company and its PRC subsidiaries in the current year are set out below:

Value-added tax (VAT)	—	Output VAT is calculated by applying 17% to the taxable sales, less deductible input VAT of the current period.
Business tax	—	It is calculated by applying 5% to the taxable income.
City maintenance and construction surtax	—	It is levied at 7% on the turnover taxes paid.
Corporate income tax	—	It is levied at 25% on the taxable profit.

2. Tax benefits and official approval

The Group's tax benefits and official approval are as follows:

Pursuant to the provisions of Rule 28 under the Corporate Income Tax Law of the People's Republic of China passed at the Fifth Plenary Session of the Tenth National People's Congress on 16 March 2007, high-tech enterprises that require government support are subject to corporate income tax at the rate of 15%.

Pursuant to the relevant document jointly issued by the Hunan Provincial Science and Technology Department, Department of Finance of Hunan Province, the State Taxation Bureau of Hunan Province and the Local Taxation Bureau of Hunan Province, the Company and its subsidiary, Zhuzhou Times Electronics Technology Co., Ltd.("Times Electronics"), were accredited as high-tech enterprises and granted certificates of high-tech enterprise (No.: GF 201143000144 and GF201143000056, respectively) on 4 November 2011 for a validity period of three years. Pursuant to the document Yong Gao Qi Ren Ban [2011] No.10 (甬高企認辦[2011]10號文) of Ningbo City, Zhejiang Province, Ningbo CSR Times Sensor Technology Co., Ltd.("Ningbo Times"), a subsidiary of the Company, was accredited as a high-tech enterprise and granted a certificate of high-tech enterprise (No. GF201133100049) on 6 September 2011 for a validity period of three years. Pursuant to the document Xiang Ke Zi [2009] No. 134 (湘科字[2009]134號文) jointly issued by Hunan Provincial Science and Technology Department, Department of Finance of Hunan Province, the State Taxation Bureau of Hunan Province and the Local Taxation Bureau of Hunan Province, Zhuzhou Times Equipment Technology Co., Ltd.("Times Equipment") , a subsidiary of the Company, was accredited as a high-tech enterprise and granted a certificate of high-tech enterprise (No.GR200943000073) on 15 July 2009 for a validity period of three years from 2009 to 2011. Pursuant to the Corporate Income Tax Law and its implementation rules, a high-tech enterprise strongly supported by the state shall be subject to income tax at the rate of 15%, and therefore, the Company, Times Electronics, Ningbo Times and Times Equipment were subject to income tax at the rate of 15% in the current year.

III. Taxes (continued)

2. Tax benefits and official approval (continued)

Pursuant to "The Notice Regarding the Tax Policies of the Strategy of Further Development of Western Region Issued by Ministry of Finance, General Administration of Customs and State Administration of Taxation" (Cai Shui No. [2011]58)(《財政部、海關總署、國家稅務總局關於深入實施西部大開發戰略有關稅收政策問題的通知》)（財稅[2011]58 號）, the preferential tax policies of the development of Western Region can be adopt until 2020. The article 2 of such document regulated that "From 1 January 2011 to 31 December 2020, the enterprise of encourage industry which set up Western Region can enjoy a corporate income tax at the reduced rate of 15%. Such enterprise of encourage industry refers to the principal activities of the industry project provided in the "Category of Encourage Industry in Western Region"（《西部地區鼓勵類產業目錄》）, and its revenue from principal activities represents more than 70% of total revenue of the enterprise. The "Category of Encourage Industry in Western Region" will be published separately". Despite the above "Category of Encourage Industry in Western Region" has not yet been issued, the management of the Baoji CSR Times Engineering Machinery Co. Ltd. ("Baoji Times") believes that the Company engaged in the principal activities which the industry projects provided in the "Category of encourage industry in Western Region" in past years, and fulfilled the conditions of enjoyment of the preferential tax of West Region, therefore, the income tax is still calculated based on the preferential tax rate of West Region.

IV. Scope of Consolidation of the Consolidated Financial Statements

1. Particulars of subsidiaries

Particulars of subsidiaries of the Company are as follows:

Names of companies	Type of subsidiaries	Place of registration	Registered capital	Nature of business	Scope of business	Proportion of shareholding direct	Proportion of shareholding indirect	Proportion of votes	Consolidated or not
Ningbo Times	Limited liability company	Ningbo Zhejiang	RMB 48,826,200	Manufacture industry	Manufacture and sale of sensors and vacuum sanitary units	100%	—	100%	Yes
Times Electronics	Limited liability company	Zhuzhou Hunan	RMB 80,000,000	Manufacture industry	Manufacture and sale of electrical control systems for large railway maintenance vehicles	100%	—	100%	Yes
Times Equipment	Limited liability company	Zhuzhou Hunan	RMB 36,000,000	Manufacture industry	Manufacture and sale of vibration absorbers and testing equipment	100%	—	100%	Yes
Beijing CSR Times Information Technology Co., Ltd. ("Times Information")	Limited liability company	Beijing	RMB 29,000,000	Manufacture industry	Manufacture and sale of train operation safety equipment	100%	—	100%	Yes
Shenyang CSR Times Transportation Equipment Co., Ltd. ("Shenyang Times")	Limited liability company	Shenyang Liaoning	RMB 3,000,000	Manufacture industry	Manufacture and sale of electrical components for rail transit vehicles	100%	—	100%	Yes
Baoji Times	Limited liability company	Baoji Shaanxi	RMB 200,000,000	Manufacture industry	Manufacture and sale of large railway and urban rail work machines and vehicles	80%	—	80%	Yes
Kunming CSR Electric Equipment Co., Ltd. ("Kunming Electrics")	Limited liability company	Kunming Yunnan	RMB 3,000,000	Manufacture industry	Manufacture and sale of train-borne electrical systems	100%	—	100%	Yes
Hangzhou CSR Electric Equipment Co., Ltd. ("Hangzhou Electrics")	Limited liability company	Hangzhou Zhejiang	RMB 75,000,000	Manufacture industry	Manufacture and sale of train-borne electrical systems	60%	—	60%	Yes Note 1
Guangzhou CSR Times Electric Technology Co., Ltd. ("Guangzhou Times")	Limited liability company	Guangzhou Guangdong	RMB 30,000,000	Manufacture industry	Manufacture and sale of train-borne electrical systems	60%	—	60%	Yes Note 2
Times Electric USA, LLC ("Times USA")	Limited liability company	USA	USD 430,000	Trading	Sale of power semi-conductor and integrated circuit products	100%	—	100%	Yes
Dynex Power Inc. ("Dynex")	Limited liability company	Canada	CAD 37,096,192	Investment holding	Investment holding	75%	—	75%	Yes
Dynex Semiconductor Limited ("Dynex Semiconductor")	Limited liability company	United Kingdom	GPB 15,000,000	Manufacture industry	Manufacture and sale of power semi-conductor and integrated circuit products	—	75%	75%	Yes

IV. Scope of Consolidation of the Consolidated Financial Statements (continued)

1. Particulars of the subsidiaries (continued)

Note 1: In accordance with the minutes of the general meeting of Hangzhou Electrics held on 23 December 2011 and the provisions of its revised Articles of Association, Hangzhou Electrics increased the registered capital to RMB 75,000,000. On 31 December 2011, the Company and Zhejiang Economic Construction Investment Co., Ltd. (浙江省經濟建設投資有限公司) made an additional investment of RMB 3,000,000 and RMB 12,000,000 respectively in Hangzhou Electrics. Upon completion of the capital increment, the equity interest held by the Company in Hangzhou Electrics decreased from 100% to 60%, and Zhejiang Economic Construction Investment Co., Ltd. held a 40% equity interest of Hangzhou Electrics. The paid-in capital after changes increased to RMB 30,000,000, and the relevant procedure for change in industrial and commercial registration was completed on 12 January 2012.

Note 2: In 2011, the Company and Guangzhou Metro Design & Research Institute Co., Ltd. (廣州地鐵設計研究院有限公司) jointly contributed to the establishment of Guangzhou Times pursuant to a mutually agreed jointly controlled entity agreement. The Company contributed RMB18,000,000 and held a 60% equity interest in Guangzhou Times. Guangzhou Metro Design & Research Institute Co., Ltd. contributed RMB12,000,000 and held a 40% equity interest in Guangzhou Times. The relevant procedure for change in industrial and commercial registration was completed on 28 July 2011.

2. Changes in scope of consolidation

Except for the subsidiary newly established in the current year, the scope of the consolidated financial statements is as same as that of the previous year.

3. Entity newly consolidated in the current year

The subsidiary newly consolidated in 2011 is as follows:

	Net assets at the end of 2011	Net losses from the incorporation date to the end of the current year
Guangzhou Times	28,184,295	1,815,705

V. Notes to Key Items of the Consolidated Financial Statements

1. Cash and bank balances

	31 December 2011		
	Original currency	Exchange rate	RMB equivalent
Cash			
– CAD	2,848	6.1777	17,594
Cash in bank			
– RMB	1,987,956,332	1.0000	1,987,956,332
– USD	7,688,986	6.3009	48,447,532
– HKD	4,819,166	0.8107	3,906,898
– EURO	349,220	8.1625	2,850,508
– CAD	11,944	6.1777	73,786
– GBP	1,054,557	9.7116	10,241,436
– Other			224,304
			2,053,700,796
Other cash and bank balances			
– RMB	104,002,637	1.0000	104,002,637
			2,157,721,027

V. Notes to key items of the consolidated financial statements (continued)

1. Cash and bank balances (continued)

	31 December 2010		
	Original currency	Exchange rate	RMB equivalent
Cash			
– RMB	1,034	1.0000	1,034
– CAD	2,333	6.6043	15,411
			16,445
Cash in bank			
– RMB	1,512,111,979	1.0000	1,512,111,979
– USD	5,842,886	6.6227	38,695,679
– HKD	10,546,475	0.8509	8,973,995
– EURO	297,156	8.8065	2,616,902
– CAD	172,569	6.6043	1,139,699
– GBP	579,806	10.2182	5,924,574
– Other			55
			1,569,462,883
Other cash and bank balances			
– RMB	111,979,962	1.0000	111,979,962
			1,681,459,290

	31 December 2011	31 December 2010
Restricted cash and bank balances:		
Security deposits for acceptance bills	**97,033,368**	86,877,105
Security deposits for letters of guarantee	**4,864,016**	10,102,857
Security deposits for letters of credit	**2,105,253**	—
Cash in the capital verification account	**—**	15,000,000
	104,002,637	111,979,962

The restricted time period for using the above restricted cash and bank balances is within 1 year.

As at 31 December 2011, the cash and bank balances deposited overseas by the Group were equivalent to RMB22,810,794 (31 December 2010: equivalent to RMB24,024,936).

Interest income earned on current deposits is calculated by using the current deposit interest rate. The deposit periods for short-term deposits vary from 1 day to 3 months depending on the cash requirements of the Group and earn interest at the respective deposit rates.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

2. Bills receivable

	31 December 2011	31 December 2010
Bank acceptance bills	919,148,640	740,080,922
Commercial acceptance bills	132,460,660	51,367,770
	1,051,609,300	791,448,692

Details of the amounts due from related parties in the balance of the bills receivable are disclosed in Note VI. Related party relationships and transactions.

3. Trade receivables

The credit period of trade receivables is usually 6 months. The trade receivables bear no interest.

The aging analysis of the trade receivables is as follows:

	31 December 2011	31 December 2010
Within 6 months	902,907,803	734,815,763
6 months to 1 year	170,255,141	93,164,353
1 to 2 years	49,373,741	84,117,363
2 to 3 years	25,883,076	18,000,848
Over 3 years	9,208,557	5,379,769
	1,157,628,318	935,478,096
Less: provision for bad debt	38,374,970	34,242,379
	1,119,253,348	901,235,717

The movements of provision for bad debt are as follows:

	2011	2010
Opening balance	34,242,379	35,753,192
Provision in the current year	7,595,807	3,002,588
Transfer in the current year	1,017,130	—
Reversal in the current year	(4,254,766)	(1,124,911)
Write-off in the current year	(168,890)	(3,332,912)
Exchange realignment	(56,690)	(55,578)
Closing balance	38,374,970	34,242,379

V. Notes to Key Items of the Consolidated Financial Statements (continued)

3. Trade receivables (continued)

Trade receivables that were derecognised as transfer of financial assets in 2011 are as follows:

	Derecognised amount	Loss in relation to derecognition
Non-recourse factoring of trade receivables	161,686,555	3,071,971

The Group had no trade receivables derecognised as transfer of financial assets in 2010.

Details of the amounts due from related parties in the balance of trade receivables are disclosed in Note VI. Related party relationships and transactions.

4. Prepayments

The aging analysis of prepayments is as follows:

	31 December 2011	31 December 2010
Within 1 year	97,992,397	84,537,501
1 to 2 years	10,180,203	2,790,198
2 to 3 years	1,593,713	16,417,016
Over 3 years	—	111,394
	109,766,313	103,856,109

Details of the amounts due from related parties in the balance of prepayments are disclosed in Note VI. Related party relationships and transactions.

5. Other receivables

The aging analysis of other receivables is as follows:

	31 December 2011	31 December 2010
Within 1 year	101,030,454	20,767,158
1 to 2 years	2,917,976	3,737,653
2 to 3 years	654,670	4,847,315
Over 3 years	1,305,792	283,530
	105,908,892	29,635,656
Less: provision for bad debt	2,534,950	2,985,776
	103,373,942	26,649,880

V. Notes to Key Items of the Consolidated Financial Statements (continued)

5. Other receivables (continued)

The movements of provision for bad debt are as follows:

	2011	2010
Opening balance	**2,985,776**	4,000,591
Provision in the current year	**—**	37,562
Reversal in the current year	**(450,826)**	(415,609)
Write-off in the current year	**—**	(636,768)
Closing balance	**2,534,950**	2,985,776

Details of the amounts due from related parties in the balance of other receivables are disclosed in Note VI. Related party relationships and transactions.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

6. Inventories

	31 December 2011		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	689,993,102	89,218,919	600,774,183
Work in progress	404,565,010	21,234,863	383,330,147
Finished goods	708,950,559	30,743,227	678,207,332
Turnover materials	7,082,140	810,565	6,271,575
	1,810,590,811	142,007,574	1,668,583,237

	31 December 2010		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	499,950,051	50,306,722	449,643,329
Work in progress	369,627,516	30,728,892	338,898,624
Finished goods	813,040,593	16,578,913	796,461,680
Turnover materials	5,634,915	147,163	5,487,752
	1,688,253,075	97,761,690	1,590,491,385

The movements of provision for inventories impairment are as follows:

2011

			Decrease			
	Opening balance	Provision	Reversal (Note 1)	Write-off (Note 2)	Exchange realignment	Closing balance
Raw materials	50,306,722	43,334,684	(4,065,631)	—	(356,856)	89,218,919
Work in progress	30,728,892	2,799,823	(11,971,566)	—	(322,286)	21,234,863
Finished goods	16,578,913	16,219,107	(1,758,517)	(224)	(296,052)	30,743,227
Turnover materials	147,163	751,247	(87,845)	—	—	810,565
	97,761,690	63,104,861	(17,883,559)	(224)	(975,194)	142,007,574

Note 1: Mainly represents reversal of provision for impairment of inventories when the impaired value was recovered.

Note 2: Mainly represents write-off of provision for impairment of inventories when the related inventories were disposed of or consumed.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

6. Inventories (continued)

2010

			Decrease			
	Opening balance	Provision	Reversal (Note 1)	Write-off (Note 2)	Exchange realignment	Closing balance
Raw materials	49,581,681	9,083,976	(6,963,862)	(638,454)	(756,619)	50,306,722
Work in progress	41,036,063	16,515,442	(24,837,434)	(247,143)	(1,738,036)	30,728,892
Finished goods	20,182,582	4,377,179	(7,000,865)	(332,980)	(647,003)	16,578,913
Turnover materials	379,541	12,225	(163,297)	(81,306)	—	147,163
	111,179,867	29,988,822	(38,965,458)	(1,299,883)	(3,141,658)	97,761,690

Note 1: Mainly represents reversal of provision for impairment of inventories when the impaired value was recovered.

Note 2: Mainly represents write-off of provision for impairment of inventories when the related inventories were disposed of or consumed.

As at 31 December 2011, no inventory of the Group was restricted (31 December 2010: Nil).

7. Other current assets

	31 December 2011	31 December 2010
Prepaid taxes	**16,745,808**	83,835,319
Bank financial products (note)	**310,000,000**	—
	326,745,808	83,835,319

Note: On 31 December 2011, the Company bought principal guaranteed and income yielding Sunshine financial products amounting to RMB300,000,000 from China Everbright Bank, with interests accrued from 31 December 2011 to 4 January 2012, and the expected yielding rate is 4.8%. On 29 December 2011, the Company bought principal guaranteed and income yielding YieldPlus financial products amounting to RMB10,000,000 from Shanghai Pudong Development Bank, with interests accrued from 29 December 2011 to 12 January 2012, and the expected yielding rate is 4.4%.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

8. Long-term receivables

	31 December 2011			31 December 2010		
	Gross carrying amount	Impairment provision	Carrying amount	Gross carrying amount	Impairment provision	Carrying amount
Finance leases	2,865,271	—	2,865,271	4,049,142	—	4,049,142

The maturity profile of long-term receivables is analysed as follows:

	31 December 2011	31 December 2010
Within 1 year	1,092,595	1,183,871
1 to 2 years	1,163,640	1,092,595
2 to 3 years	609,036	1,163,640
3 to 4 years	—	609,036
	2,865,271	4,049,142
Less: Non-current assets due within one year	1,092,595	—
	1,772,676	4,049,142

V. Notes to Key Items of the Consolidated Financial Statements (continued)

9. Investments in a jointly controlled entity and an associate

2011

	Type of enterprises	Place of registration	Nature of business	Registered capital	Proportion of shareholding and votes: Direct	Proportion of shareholding and votes: Indirect	Total assets	Total liabilities	Total net assets	Revenue	Net profit
Jointly controlled entity											
Zhuzhou Shiling Transportation Equipment Company, Ltd.	Limited liability company	Zhuzhou	Manufacturing	USD14,000,000	50%	—	349,074,346	40,003,164	309,071,182	300,338,128	85,687,578
Associate											
Siemens Traction Equipment Ltd., Zhuzhou	Limited liability company	Zhuzhou	Manufacturing	RMB128,989,000	30%	—	673,736,206	503,458,329	170,277,877	582,860,197	39,784,540

2010

	Type of enterprises	Place of registration	Nature of business	Registered capital	Proportion of shareholding and votes: Direct	Proportion of shareholding and votes: Indirect	Total assets	Total liabilities	Total net assets	Revenue	Net profit
Jointly controlled entity											
Zhuzhou Shiling Transportation Equipment Company, Ltd.	Limited liability company	Zhuzhou	Manufacturing	USD14,000,000	50%	—	296,973,477	51,589,865	245,383,612	198,803,853	62,200,749
Associate											
Siemens Traction Equipment Ltd., Zhuzhou	Limited liability company	Zhuzhou	Manufacturing	RMB128,989,000	30%	—	508,048,671	362,833,614	145,215,057	695,751,064	87,345,321

V. Notes to Key Items of the Consolidated Financial Statements (continued)

10. Long-term equity investments

2011

	Opening balance	Increase	Closing balance	Impairment provision	Net value at end of year	Cash dividend received
Non-listed investments:						
Equity method:						
Jointly controlled entity						
Zhuzhou Shiling Transportation Equipment Company, Ltd.	122,691,802	31,843,789	154,535,591	—	154,535,591	11,000,000
Associate						
Siemens Traction Equipment Ltd., Zhuzhou	45,012,136	2,906,041	47,918,177	—	47,918,177	4,061,710
Cost method:						
Changchun Railway Vehicles Technology Development Co., Ltd.	400,000	—	400,000	—	400,000	—
	168,103,938	34,749,830	202,853,768	—	202,853,768	15,061,710

2010

	Opening balance	Increase/ (decrease)	Closing balance	Impairment provision	Net value at end of year	Cash dividend received
Non-listed investments:						
Equity method:						
Jointly controlled entity						
Zhuzhou Shiling Transportation Equipment Company, Ltd.	97,091,427	25,600,375	122,691,802	—	122,691,802	5,500,000
Associates						
Zhuzhou Times Zhuoyue Automotive Electronics Technology Co., Ltd.	984,260	(984,260)	—	—	—	—
Siemens Traction Equipment Ltd., Zhuzhou	18,808,540	26,203,596	45,012,136	—	45,012,136	—
Cost method:						
Changchun Railway Vehicles Technology Development Co., Ltd.	400,000	—	400,000	—	400,000	—
	117,284,227	50,819,711	168,103,938	—	168,103,938	5,500,000

V. Notes to Key Items of the Consolidated Financial Statements (continued)

11. Fixed assets

2011

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Cost:					
Buildings	769,438,786	108,620,861	—	(1,476,932)	876,582,715
Machinery	674,983,476	197,473,959	(22,594,390)	(10,081,016)	839,782,029
Vehicles	22,376,452	7,377,299	(477,446)	(9,828)	29,266,477
Office facilities and others	114,110,407	23,479,699	(4,147,321)	(4,061)	133,438,724
	1,580,909,121	336,951,818	(27,219,157)	(11,571,837)	1,879,069,945
Accumulated depreciation:					
Buildings	85,694,665	24,519,686	—	(20,952)	110,193,399
Machinery	202,957,413	72,634,108	(1,260,377)	(3,000,466)	271,330,678
Vehicles	9,838,909	3,806,329	(453,574)	(2,502)	13,189,162
Office facilities and others	56,110,884	17,211,178	(3,350,185)	(1,297)	69,970,580
	354,601,871	118,171,301	(5,064,136)	(3,025,217)	464,683,819
Carrying amount:					
Buildings	683,744,121	84,101,175	—	(1,455,980)	766,389,316
Machinery	472,026,063	124,839,851	(21,334,013)	(7,080,550)	568,451,351
Vehicles	12,537,543	3,570,970	(23,872)	(7,326)	16,077,315
Office facilities and others	57,999,523	6,268,521	(797,136)	(2,764)	63,468,144
	1,226,307,250	218,780,517	(22,155,021)	(8,546,620)	1,414,386,126
Impairment provision:					
Buildings	9,411,739	—	—	—	9,411,739
Machinery	15,713,295	20,736,118	(52,885)	—	36,396,528
Vehicles	—	—	—	—	—
Office facilities and others	903,488	—	(18,260)	—	885,228
	26,028,522	20,736,118	(71,145)	—	46,693,495
Net carrying amount:					
Buildings	674,332,382	84,101,175	—	(1,455,980)	756,977,577
Machinery	456,312,768	104,103,733	(21,281,128)	(7,080,550)	532,054,823
Vehicles	12,537,543	3,570,970	(23,872)	(7,326)	16,077,315
Office facilities and others	57,096,035	6,268,521	(778,876)	(2,764)	62,582,916
	1,200,278,728	198,044,399	(22,083,876)	(8,546,620)	1,367,692,631

V. Notes to Key Items of the Consolidated Financial Statements (continued)

11. Fixed assets (continued)

2010

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Cost:					
Buildings	613,314,494	162,716,590	(6,564,617)	(27,681)	769,438,786
Machinery	479,355,255	210,885,579	(8,751,134)	(6,506,224)	674,983,476
Vehicles	17,095,670	7,926,137	(2,639,079)	(6,276)	22,376,452
Office facilities and others	118,942,533	13,374,119	(18,204,153)	(2,092)	114,110,407
	1,228,707,952	394,902,425	(36,158,983)	(6,542,273)	1,580,909,121
Accumulated depreciation:					
Buildings	65,472,029	21,818,845	(1,595,705)	(504)	85,694,665
Machinery	145,866,229	66,059,067	(6,595,862)	(2,372,021)	202,957,413
Vehicles	9,870,085	2,482,021	(2,512,091)	(1,106)	9,838,909
Office facilities and others	49,132,478	21,372,940	(14,394,003)	(531)	56,110,884
	270,340,821	111,732,873	(25,097,661)	(2,374,162)	354,601,871
Carrying amount:					
Buildings	547,842,465	140,897,745	(4,968,912)	(27,177)	683,744,121
Machinery	333,489,026	144,826,512	(2,155,272)	(4,134,203)	472,026,063
Vehicles	7,225,585	5,444,116	(126,988)	(5,170)	12,537,543
Office facilities and others	69,810,055	(7,998,821)	(3,810,150)	(1,561)	57,999,523
	958,367,131	283,169,552	(11,061,322)	(4,168,111)	1,226,307,250
Impairment provision:					
Buildings	—	9,411,739	—	—	9,411,739
Machinery	213,440	15,499,855	—	—	15,713,295
Vehicles	—	—	—	—	—
Office facilities and others	51,847	883,901	(32,260)	—	903,488
	265,287	25,795,495	(32,260)	—	26,028,522
Net carrying amount:					
Buildings	547,842,465	131,486,006	(4,968,912)	(27,177)	674,332,382
Machinery	333,275,586	129,326,657	(2,155,272)	(4,134,203)	456,312,768
Vehicles	7,225,585	5,444,116	(126,988)	(5,170)	12,537,543
Office facilities and others	69,758,208	(8,882,722)	(3,777,890)	(1,561)	57,096,035
	958,101,844	257,374,057	(11,029,062)	(4,168,111)	1,200,278,728

V. Notes to Key Items of the Consolidated Financial Statements (continued)

11. Fixed assets (continued)

The amount of depreciation provided in 2011 was RMB118,171,301 (2010: RMB111,732,873). In 2011, The cost of fixed assets transferred from constructions in progress was RMB238,245,157 (2010: RMB318,789,867).

As at 31 December 2011, fixed assets held under operating leases are as follows:

	Cost	**Accumulated depreciation**	**Impairment provision**	**Net carrying amount**
Buildings	**50,970,484**	**2,573,940**	**—**	**48,396,544**

As at 31 December 2010, fixed assets held under operating leases are as follows:

	Cost	Accumulated depreciation	Impairment provision	Net carrying amount
Buildings	57,439,947	4,921,837	—	52,518,110

As at 31 December 2011, the title of buildings with a net carrying amount of RMB27,093,551 (31 December 2010: RMB2,745,242) was restricted, refer to Note V.17.

As at 31 December 2011, the Group was in the process of applying for the title certificates of certain buildings with an aggregate carrying amount of RMB44,914,912 (31 December 2010: RMB23,145,879). The Company's management is of the view that the Group is entitled to lawfully and validly occupy and use the above mentioned buildings. The Company's management is also of the opinion that the aforesaid matter would not have any significant impact on the Group's financial position as at 31 December 2011.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

12. Intangible assets

2011

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Cost:					
Land use rights	142,302,406	27,218,934	—	(941,544)	168,579,796
Software licenses	42,746,306	9,587,561	(2,489,031)	—	49,844,836
Patents, licenses and technical know-how	197,507,656	—	—	(713,698)	196,793,958
	382,556,368	36,806,495	(2,489,031)	(1,655,242)	415,218,590
Accumulated amortisation:					
Land use rights	11,961,806	2,969,223	—	—	14,931,029
Software licenses	25,448,501	6,810,213	(1,903,197)	—	30,355,517
Patents, licenses and technical know-how	31,186,757	6,958,047	—	(154,150)	37,990,654
	68,597,064	16,737,483	(1,903,197)	(154,150)	83,277,200
Carrying amount:					
Land use rights	130,340,600	24,249,711	—	(941,544)	153,648,767
Software licenses	17,297,805	2,777,348	(585,834)	—	19,489,319
Patents, licenses and technical know-how	166,320,899	(6,958,047)	—	(559,548)	158,803,304
	313,959,304	20,069,012	(585,834)	(1,501,092)	331,941,390
Impairment provision:					
Land use rights	—	—	—	—	—
Software licenses	—	—	—	—	—
Patents, licenses and technical know-how	131,627,620	—	—	—	131,627,620
	131,627,620	—	—	—	131,627,620
Net carrying amount:					
Land use rights	130,340,600	24,249,711	—	(941,544)	153,648,767
Software licenses	17,297,805	2,777,348	(585,834)	—	19,489,319
Patents, licenses and technical know-how	34,693,279	(6,958,047)	—	(559,548)	27,175,684
	182,331,684	20,069,012	(585,834)	(1,501,092)	200,313,770

V. Notes to Key Items of the Consolidated Financial Statements (continued)

12. Intangible assets (continued)

2010

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Cost:					
Land use rights	142,302,406	—	—	—	142,302,406
Software Licenses	40,214,028	6,472,086	(3,939,808)	—	42,746,306
Patents, licenses and technical know-how	95,233,312	134,821,687	(30,193,788)	(2,353,555)	197,507,656
	277,749,746	141,293,773	(34,133,596)	(2,353,555)	382,556,368
Accumulated amortisation:					
Land use rights	8,236,794	3,725,012	—	—	11,961,806
Software Licenses	20,193,699	8,248,989	(2,994,187)	—	25,448,501
Patents, licenses and technical know-how	25,551,949	19,735,821	(13,900,355)	(200,658)	31,186,757
	53,982,442	31,709,822	(16,894,542)	(200,658)	68,597,064
Net carrying amount:					
Land use rights	134,065,612	(3,725,012)	—	—	130,340,600
Software Licenses	20,020,329	(1,776,903)	(945,621)	—	17,297,805
Patents, licenses and technical know-how	69,681,363	115,085,866	(16,293,433)	(2,152,897)	166,320,899
	223,767,304	109,583,951	(17,239,054)	(2,152,897)	313,959,304
Impairment provision:					
Land use rights	—	—	—	—	—
Software Licenses	—	—	—	—	—
Patents, licenses and technical know-how	—	131,627,620	—	—	131,627,620
	—	131,627,620	—	—	131,627,620
Carrying amount:					
Land use rights	134,065,612	(3,725,012)	—	—	130,340,600
Software Licenses	20,020,329	(1,776,903)	(945,621)	—	17,297,805
Patents, licenses and technical know-how	69,681,363	(16,541,754)	(16,293,433)	(2,152,897)	34,693,279
	223,767,304	(22,043,669)	(17,239,054)	(2,152,897)	182,331,684

The amount of amortisation in 2011 was RMB16,737,483 (2010: RMB31,709,822).

V. Notes to Key Items of the Consolidated Financial Statements (continued)

12. Intangible assets (continued)

In 2007, the Group entered into an agreement in relation to the purchase of a technology license for the production and sale of a type of product. In 2010, the Group acquired the use right under the technology licensing agreement, and thus an intangible asset of RMB 131,627,620 was recognised during the year. However, in view of the change in market demand, management of the Company considered that the recoverable amount arising from the technology licensing agreement would not be able to cover the net carrying value of the use right. The recoverable amount has been determined based on the present value of expected future cash flows of the intangible asset. Accordingly, in 2010, the Group made full provision for impairment of the technology licensing agreement, and impairment losses of the intangible asset in the amount of RMB131,627,620 were recognised.

As at 31 December 2011, no intangible asset of the Group was restricted (31 December 2010: nil).

As at 31 December 2011, the Group was in the process of applying for the title certificates of certain of its land use rights in Mainland China with an aggregate carrying amount of RMB10,000,000 (31 December 2010: nil). The Company's management is of the view that the Group is entitled to lawfully and validly occupy and use the above mentioned land, and also of the opinion that the aforesaid matter will not have any significant impact on the Group's financial position as at 31 December 2011.

The land use rights related to land located in Mainland China which is held under a medium term lease.

Development expenditure is as follows:

2011

			Decrease		
	Opening balance	**Increase**	**Recognised in profit or loss**	**Recognised as an intangible asset**	**Closing balance**
Development expenses	**7,124,068**	**32,198,733**	**—**	**—**	**39,322,801**

2010

			Decrease		
	Opening balance	Increase	Recognised in profit or loss	Recognised as an intangible asset	Closing balance
Development expenses	9,000,745	1,274,655	—	3,151,332	7,124,068

As at 31 December 2011, intangible assets arising from internal development accounted for 7.60% (31 December 2010: 9.84%) of the year-end net carrying amount of intangible assets.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

13. Goodwill

2011

	Opening balance	Exchange realignment	Closing balance	Impairment provision
Goodwill	61,039,505	(2,344,574)	58,694,931	—

2010

	Opening balance	Exchange realignment	Closing balance	Impairment provision
Goodwill	64,704,508	(3,665,003)	61,039,505	—

Goodwill acquired through business combinations has been allocated to the asset group for impairment testing.

The recoverable amount of the goodwill was determined according to the present value of expected future cash flows of the asset group. The expected future cash flows were determined according to cash flow projections based on financial budgets covering a five-year period approved by management. The discount rate applied for the cash flow projections was 15% (2010: 15%), and cash flows beyond the five-year period were extrapolated using a growth rate of 2% (2010: 2%).

Key assumptions were used for the calculation of the present values of expected future cash flows of the asset groups as of 31 December 2011 and 31 December 2010. Key assumptions made by management on projections of cash flows used in the test for impairment are described as follows:

Budgeted gross margin — It is determined on the basis of the average gross margin achieved in the year immediately before the budget year by properly increasing such average gross margin according to expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are pre-tax discount rates which reflect specific risks relating to the relevant asset groups.

The amounts assigned to the key assumptions relating to market development of the asset group and discount rate are consistent with external information sources.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

14. Deferred tax assets/liabilities

The deferred tax assets and deferred tax liabilities are not stated at net amount after offsetting:

Recognised deferred tax assets and liabilities:

Deferred tax assets:

	31 December 2011	31 December 2010
Provision for impairment of assets	6,812,875	3,973,677
Provision for product quality warranties	30,543,197	25,965,445
Government grants	22,361,477	13,738,479
	59,717,549	43,677,601

Deferred tax liabilities:

	31 December 2011	31 December 2010
Fair value adjustments arising from acquisition of subsidiaries	4,981,429	7,292,655
Depreciation differences arising from different depreciation term in tax laws and accounting	10,744,052	6,421,440
	15,725,481	13,714,095

Deductible loss and deductible temporary differences of unrecognised deferred tax assets are as follows:

	31 December 2011	31 December 2010
Deductible loss	52,886,810	30,734,609
Deductible temporary differences	37,452,867	15,365,427
	90,339,677	46,100,036

Deductible loss of unrecognised deferred tax assets will expire in following years:

	31 December 2011	31 December 2010
2012	2,288,491	2,288,491
2013	5,684,466	5,716,777
2014	7,679,935	8,179,479
2015	14,549,862	14,549,862
2016	22,684,056	—
	52,886,810	30,734,609

V. Notes to Key Items of the Consolidated Financial Statements (continued)

14. Deferred tax assets/liabilities (continued)

Temporary differences from assets or liabilities that resulting in such differences are presented as follows:

	31 December 2011	31 December 2010
Deductible temporary differences		
Provision for impairment of assets	45,419,162	25,795,495
Provision for product quality warranties	203,621,314	173,097,239
Government grants	142,524,303	84,761,761
	391,564,779	283,654,495
Taxable temporary differences		
Fair value adjustments arising from acquisition of subsidiaries	19,925,715	27,009,833
Depreciation differences arising from different depreciation term in tax laws and accounting	42,976,207	23,783,112
	62,901,922	50,792,945

15. Other non-current assets

	31 December 2011	31 December 2010
Prepayments for acquisition of land use right	38,268,244	39,378,500
Prepayments for construction in progress	8,595,484	—
Prepayments for purchase of machinery and equipment	3,461,405	—
	50,325,133	39,378,500

V. Notes to Key Items of the Consolidated Financial Statements (continued)

16. Provision for impairment of assets

2011

	Opening balance	Increase: Provision	Increase: Transfer	Decrease: Reversal	Decrease: Write-off	Exchange realignment	Closing balance
Provision for bad debt	37,228,155	7,595,807	1,017,130	(4,705,592)	(168,890)	(56,690)	40,909,920
Provision for impairment of inventories	97,761,690	63,104,861	—	(17,883,559)	(224)	(975,194)	142,007,574
Provision for impairment of fixed assets	26,028,522	20,736,118	—	—	(71,145)	—	46,693,495
Provision for impairment of intangible assets	131,627,620	—	—	—	—	—	131,627,620
	292,645,987	91,436,786	1,017,130	(22,589,151)	(240,259)	(1,031,884)	361,238,609

2010

	Opening balance	Increase: Provision	Increase: Transfer	Decrease: Reversal	Decrease: Write-off	Exchange realignment	Closing balance
Provision for bad debt	39,753,783	3,040,150	—	(1,540,520)	(3,969,680)	(55,578)	37,228,155
Provision for impairment of inventories	111,179,867	29,988,822	—	(38,965,458)	(1,299,883)	(3,141,658)	97,761,690
Provision for impairment of fixed assets	265,287	25,795,495	—	—	(32,260)	—	26,028,522
Provision for impairment of intangible assets	—	131,627,620	—	—	—	—	131,627,620
	151,198,937	190,452,087	—	(40,505,978)	(5,301,823)	(3,197,236)	292,645,987

V. Notes to Key Items of the Consolidated Financial Statements (continued)

17. Assets with restrictions on title

2011

	Opening balance	Increase	Decrease	Closing balance	Notes
Pledged assets					
Cash and bank balances	111,979,962	104,002,637	111,979,962	104,002,637	Note 1
Bills receivable	74,225,600	198,894,960	74,225,600	198,894,960	Note 2
Fixed assets	2,745,242	27,093,551	2,745,242	27,093,551	Note 3
	188,950,804	329,991,148	188,950,804	329,991,148	

2010

	Opening balance	Increase	Decrease	Closing balance	Notes
Pledged assets					
Cash and bank balances	28,811,297	111,979,962	28,811,297	111,979,962	Note 1
Bills receivable	—	74,225,600	—	74,225,600	Note 2
Fixed assets	3,762,061	2,745,242	3,762,061	2,745,242	Note 3
	32,573,358	188,950,804	32,573,358	188,950,804	

As at 31 December 2011, the Group's assets with restrictions on title were as follows:

Note 1: The Group pledged its cash and bank balances of RMB97,033,368 (31 December 2010: RMB86,877,105) as a security deposit for issuance of bank acceptance bills; the Group pledged its cash and bank balances of RMB4,864,016 (31 December 2010: RMB10,102,857) as a security deposit for obtaining a bank letter of guarantee; the Group pledged its cash and bank balances of RMB2,105,253 (31 December 2010: nil) as a security deposit for obtaining a letter of credit from a bank. On 31 December 2010, the registered capital amounting to RMB15,000,000 of a subsidiary of the Company was restricted from being used as it had not been transferred from the temporary capital verification account to the basic deposit account. In 2011, the cash and bank balances in such temporary capital verification account have been transferred to the basic deposit account.

Note 2: The Group pledged its bills receivable of RMB198,894,960 (31 December 2010: RMB74,225,600) for issuance of bank acceptance bills.

Note 3: The Group pledged its fixed assets with a net carrying amount of RMB 27,093,551 (31 December 2010: RMB2,745,242) to obtain bank borrowings.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

18. Short-term borrowings

	31 December 2011	31 December 2010
Credit loans	139,000,000	—

As at 31 December 2011, the above borrowings carried an interest rate of 6.56% per annum.

As at 31 December 2011, the Group had no due but unpaid short-term borrowings.

19. Short-term bonds payable

2011

	Opening balance	Increase	Decrease	Closing balance
Short-term bonds	500,000,000	500,000,000	500,000,000	500,000,000

2010

	Opening balance	Increase	Decrease	Closing balance
Short-term bonds	—	500,000,000	—	500,000,000

On 16 June 2011, the Company issued short-term bonds amounting to RMB500 million with a term of one year and an interest rate of 4.77% per annum in the open market. On 19 July 2010, the Company issued short-term bonds amounting to RMB500 million with a term of one year and an interest rate of 3.18% per annum in the open market. The Company repaid in full the RMB500 million short-term bonds on 19 July 2011.

20. Bills payable

	31 December 2011	31 December 2010
Bank acceptance bills	448,604,661	196,086,850

Bills with an amount of RMB448,604,661 (31 December 2010: RMB196,086,850) will be due in the next accounting period.

Details of the amount due to related parties in the balance of bills payable are disclosed in Note VI. Related party relationships and transactions.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

21. Trade payables

The trade payables are non-interest-bearing and generally have an average payment term of 3 months.

	31 December 2011	31 December 2010
Within 3 months	**606,436,051**	872,138,727
3 months to 1 year	**173,605,093**	125,730,308
1 to 2 years	**116,837,628**	11,360,855
2 to 3 years	**7,201,945**	1,884,371
Over 3 years	**2,472,930**	1,523,554
	906,553,647	1,012,637,815

Details of the amount due to related parties in the balance of trade payables are disclosed in Note VI. Related party relationships and transactions.

22. Receipts in advance

	31 December 2011	31 December 2010
Within 1 year	**340,997,056**	211,020,854
1 to 2 years	**7,298,839**	28,082,078
2 to 3 years	**1,251,553**	2,650,353
Over 3 years	**1,616,833**	1,304,580
	351,164,281	243,057,865

Details of the amount due to related parties in the balance of receipts in advance are disclosed in Note VI. Related party relationships and transactions.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

23. Employee benefits payable

2011

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Salaries, bonuses, allowances and subsidies	2,117,048	445,514,777	445,487,947	(115,555)	2,028,323
Staff welfare	385,472	42,012,496	42,397,968	—	—
Social security	943,237	111,241,795	107,194,738	(7,643)	4,982,651
Including: Basic medical insurance	56,601	15,949,128	15,898,920	—	106,809
Supplementary medical insurance	100,070	5,787,079	5,681,758	—	205,391
Basic pension insurance	237,716	56,888,703	56,911,554	(7,643)	207,222
Annuity	413,435	23,094,734	19,255,686	—	4,252,483
Unemployment insurance	119,002	5,346,637	5,279,243	—	186,396
Work injury insurance	9,566	2,683,391	2,688,331	—	4,626
Maternity insurance	6,847	1,492,123	1,479,246	—	19,724
Housing fund	82,701	27,742,144	27,793,128	—	31,717
Union fund and employee education fund	1,923,590	19,863,019	17,257,630	—	4,528,979
Others	2,227,981	11,608,038	9,785,542	(231,625)	3,818,852
	7,680,029	657,982,269	649,916,953	(354,823)	15,390,522

2010

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Salaries, bonuses, allowances and subsidies	6,976,938	347,018,669	351,762,448	(116,111)	2,117,048
Staff welfare	340,752	38,349,389	38,304,669	—	385,472
Social security	7,320,962	74,161,460	80,531,812	(7,373)	943,237
Including: Basic medical insurance	48,854	11,717,132	11,709,385	—	56,601
Supplementary medical insurance	4,108	4,182,992	4,087,030	—	100,070
Basic pension insurance	81,900	35,951,028	35,787,839	(7,373)	237,716
Annuity	7,160,137	16,010,408	22,757,110	—	413,435
Unemployment insurance	15,120	3,626,829	3,522,947	—	119,002
Work injury insurance	4,575	1,750,549	1,745,558	—	9,566
Maternity insurance	6,268	922,522	921,943	—	6,847
Housing fund	67,250	19,256,389	19,240,938	—	82,701
Union fund and employee education fund	1,894,651	11,766,754	11,737,815	—	1,923,590
Others	4,135,668	9,133,956	10,890,087	(151,556)	2,227,981
	20,736,221	499,686,617	512,467,769	(275,040)	7,680,029

As at 31 December 2011, there were no employee benefits payable in arrears (31 December 2010: Nil).

V. Notes to Key Items of the Consolidated Financial Statements (continued)

24. Taxes payable

	31 December 2011	31 December 2010
Corporate income tax	**186,065,253**	140,909,386
Value added tax	**79,259,339**	9,641,221
Business tax	**619,874**	264,562
Individual income tax	**11,058,496**	15,555,451
Others	**9,581,204**	5,466,410
	286,584,166	171,837,030

25. Interests payable

	31 December 2011	31 December 2010
Interest on short-term bonds	**12,250,820**	6,845,833
Interest on borrowings	**218,149**	—
	12,468,969	6,845,833

26. Other payables

	31 December 2011	31 December 2010
Within 1 year	**113,951,595**	56,507,933
1 to 2 years	**16,824,580**	27,344,537
2 to 3 years	**1,578,478**	17,387,183
Over 3 years	**2,244,630**	2,266,506
	134,599,283	103,506,159

Details of the amount due to the related parties in the balance of other payables are disclosed in Note VI. Related party relationships and transactions.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

27. Non-current liabilities due within one year

	Note V	31 December 2011	31 December 2010
Long-term borrowings due within 1 year	28	**3,175,968**	738,737
Provisions due within 1 year	29	**69,481,125**	83,369,963
Deferred income due within 1 year	30	**52,601,228**	50,584,862
		125,258,321	134,693,562

Long-term borrowings due within 1 year are set out as follows:

	31 December 2011	31 December 2010
Credit loans	**—**	5,719
Mortgaged loans	**3,175,968**	733,018
	3,175,968	738,737

28. Long-term borrowings

	31 December 2011	31 December 2010
Credit loans	**—**	5,719
Mortgaged loans	**30,922,613**	3,065,769
Other loans (note)	**29,328,631**	—
	60,251,244	3,071,488
Less: Long-term borrowings due within 1 year	**3,175,968**	738,737
	57,075,276	2,332,751

Maturity analysis

	31 December 2011	31 December 2010
Due within 1 year	**3,175,968**	738,737
Due within 2 years	**37,285,947**	824,005
Due within 3 to 5 years	**19,789,329**	1,508,746
	60,251,244	3,071,488

V. Notes to Key Items of the Consolidated Financial Statements (continued)

28. Long-term borrowings (continued)

Note: Pursuant to the relevant borrowing agreement, the other loans above are secured by floating charges over certain assets. The carrying amounts of such assets as at 31 December 2011 are:

	31 December 2011
Cash and bank balances	18,709,776
Trade receivables	40,919,784
Other receivables	1,499,511
Prepayments	1,469,110
Inventories	67,280,818
Other current assets	1,842,814
Fixed assets	132,014,916
Construction in progress	13,797,557
Intangible assets	16,277,390
	293,811,676

29. Provisions

2011

	Opening balance	Increase	Decrease	Closing balance
Provision for product quality warranties	174,520,069	178,188,622	149,080,445	203,628,246
Less: Provisions due within 1 year				69,481,125
				134,147,121

2010

	Opening balance	Increase	Decrease	Closing balance
Provision for product quality warranties	93,359,707	193,111,045	111,950,683	174,520,069
Less: Provisions due within 1 year				83,369,963
				91,150,106

V. Notes to Key Items of the Consolidated Financial Statements (continued)

30. Other non-current liabilities

	31 December 2011	31 December 2010
Deferred income	89,923,075	34,969,987

Details of deferred income are presented as follows:

	31 December 2011	31 December 2010
Government grants related to assets	92,429,987	36,526,899
Government grants related to income	50,094,316	49,027,950
	142,524,303	85,554,849
Less: Deferred income due within 1 year	52,601,228	50,584,862
	89,923,075	34,969,987

31. Share capital

	2011		2010	
	Opening and closing balance		Opening and closing balance	
	Number of shares	Percentage (%)	Number of shares	Percentage (%)
Registered, issued and paid unrestricted shares:				
State-owned legal person shares	628,147,237	57.94	628,147,237	57.94
National Council for Social Security Fund	41,464,400	3.82	41,464,400	3.82
Overseas listed foreign shares	414,644,000	38.24	414,644,000	38.24
	1,084,255,637	100.00	1,084,255,637	100.00

V. Notes to Key Items of the Consolidated Financial Statements (continued)

32. Capital reserve

2011

	Opening balance and closing balance
Share premium	**1,693,508,949**

2010

	Opening balance	Decrease	Closing balance
Share premium	1,694,217,559	(708,610)	1,693,508,949

33. Surplus reserve

2011

	Opening balance	Increase	Closing balance
Statutory surplus reserve	**227,060,371**	**123,074,074**	**350,134,445**

2010

	Opening balance	Increase	Closing balance
Statutory surplus reserve	139,806,085	87,254,286	227,060,371

According to the provisions of Company Law and the Company's articles of association, the Company appropriates statutory surplus reserve at 10% of the net profit. When the accumulated amount of statutory surplus reserve reaches 50% or more of the Company's registered capital, additional appropriation is not needed.

After the appropriation of statutory surplus reserve, the Company may appropriate discretionary surplus reserve. When approved, the discretionary surplus reserve can be used to recover accumulated losses or increase the share capital.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

34. Retained earnings

	2011	2010
Retained earnings at the end of last year	1,487,852,295	936,008,253
Add: Net profit attributable to shareholders of the Parent	1,184,442,891	850,528,177
Less: Appropriation to statutory surplus reserve	123,074,074	87,254,286
Cash dividends paid	330,697,969	211,429,849
Retained earnings at the end of the year	2,218,523,143	1,487,852,295

The 2010 scheme of profit distribution of the Company has been reviewed and approved in the 2010 Annual General Meeting held on 10 June 2011, pursuant to which a final dividend of RMB0.305 (including tax) was paid on each of the 1,084,255,637 shares in issue, amounting to a total cash dividend of RMB330,697,969.

35. Revenue and cost of sales

Revenue, also the Group's turnover, represents the net invoiced value of goods sold after deducting returns and trade discounts, the value of services rendered and the total rental income received.

Revenue is stated as follows:

	2011	2010
Revenue from principal operations	7,073,432,172	5,840,982,468
Other operating income	51,342,802	45,871,767
	7,124,774,974	5,886,854,235

Cost of sales is stated as follows:

	2011	2010
Cost of sales from principal operations	4,564,397,550	3,688,169,538
Other operating costs	34,295,550	20,187,968
	4,598,693,100	3,708,357,506

Details of revenue are listed as follows:

	2011	2010
Sale of goods	7,108,782,733	5,857,287,879
Rendering of services	330,810	6,097,716
Rental income	5,936,523	6,400,082
Others	9,724,908	17,068,558
	7,124,774,974	5,886,854,235

V. Notes to Key Items of the Consolidated Financial Statements (continued)

36. Business taxes and surcharges

	2011	2010
City maintenance and construction surtax	**26,087,779**	6,140,369
Education surcharge	**18,729,069**	3,539,782
Others	**875,078**	23,860
	45,691,926	9,704,011

The calculation basis of the above business taxes and surcharges and the related applicable tax rates are disclosed in Note III. Tax.

37. Administrative expenses

Administrative expenses for the year 2011 included auditors' remuneration of RMB3,990,000 (2010: RMB5,420,000).

38. Finance costs

	2011	2010
Interest expenses:		
– Interest on bank loans due for full repayment within 5 years	**11,319,861**	2,899,689
– Interest on short-term bonds	**21,304,987**	6,845,833
– Others	**—**	1,718,400
	32,624,848	11,463,922
Less: Interest income	**8,994,322**	7,991,970
Exchange (gains)/losses	**(2,305,442)**	8,471,679
Others	**6,017,113**	6,148,037
	27,342,197	18,091,668

39. Asset impairment losses

	2011	2010
Bad debt loss	**2,890,215**	1,499,630
Impairment loss/(gain) of inventories	**45,221,302**	(8,976,636)
Impairment loss of fixed assets	**20,736,118**	25,795,495
Impairment loss of intangible assets	**—**	131,627,620
	68,847,635	149,946,109

V. Notes to Key Items of the Consolidated Financial Statements (continued)

40. Investment income

	2011	2010
Income from non-listed investments:		
Long-term equity investments income under the equity method	49,811,540	57,303,971
Others	1,278,967	623,029
	51,090,507	57,927,000

Details of long-term equity investments income under the equity method are as follows:

Investees	2011	2010	Reason of change
Siemens Traction Equipment Ltd. Zhuzhou	6,967,751	26,203,596	profit decrease
Zhuzhou Shiling Transportation Equipment Company, Ltd.	42,843,789	31,100,375	profit increase
	49,811,540	57,303,971	

As at 31 December 2011, the repatriation of the Group's investments income was not subject to significant restriction.

41. Non-operating income

	2011	2010
Gain on disposal of non-current assets	3,427,370	1,191,128
Refunds of value added tax	72,727,906	41,677,753
Government grants	33,463,646	18,390,821
Unsettled payment	1,422,134	840,750
Penalty income and default compensation income	90,904	182,929
Others	1,021,580	884,546
	112,153,540	63,167,927

Government grants recognised in the income statement of the current period are as follows:

	2011	2010
Technology projects funding	20,055,753	11,995,000
Others	13,407,893	6,395,821
	33,463,646	18,390,821

V. Notes to Key Items of the Consolidated Financial Statements (continued)

42. Non-operating expenses

	2011	2010
Loss on disposal of non-current assets	904,403	32,252,900
Donation	1,000	30,000
Loss on penalties and compensation	265,387	277,184
Others	165,267	2,107,559
	1,336,057	34,667,643

43. Income tax expense

	2011	2010
Current income tax expense		
– Mainland China	207,131,206	158,211,423
– Other countries and region	7,423	28,113
	207,138,629	158,239,536
Deferred tax expense	(13,252,704)	(23,141,784)
	193,885,925	135,097,752

The Group did not generate any assessable profits in Hong Kong and hence no provision was made for Hong Kong profits tax.

The reconciliation from income tax expense to total profit is as follows:

	2011	2010
Total profit	1,380,922,211	987,159,415
Income tax expense at statutory tax rate of 25% (note 1)	345,230,553	246,789,854
Effect of different income tax rates for overseas entities	92,757	89,895
Tax exemption	(139,601,672)	(99,574,355)
Profits and losses attributable to an associate and a jointly controlled entity	(7,471,731)	(8,595,596)
Income not subject to tax	(11,326,065)	(6,996,782)
Expenses not deductible for tax	22,591,015	27,305,854
Income tax benefits on research and development expenditure	(18,689,679)	(21,324,225)
Tax losses not recognised	5,732,406	4,851,725
Utilisation of tax losses carried forward in previous periods	(132,964)	—
Others	(2,538,695)	(7,448,618)
Tax expense at the Group's effective tax rate	193,885,925	135,097,752

Note 1: The income tax of the Group is calculated based on the estimated taxable income gained in China and the applicable tax rate. Tax arising from the taxable income in other regions is calculated at applicable tax rates according to existing laws, interpretations and practices of the countries in which the Group operates.

V. Notes to Key Items of the Consolidated Financial Statements (continued)

44. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the year attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares in issue. The number of newly issued ordinary shares is determined according to specific terms of the issue contract and calculated from the date of consideration receivable.

The calculation of basic earnings per share is as follows:

	2011	2010
Earnings		
Net profit for the year attributable to ordinary shareholders of the Company	**1,184,442,891**	850,528,177
Shares		
Weighted average number of ordinary shares in issue of the Company	**1,084,255,637**	1,084,255,637
Basic earnings per share (Yuan/share)	**1.09**	0.78
Diluted earnings per share (Yuan/share)	**1.09**	0.78

The Company did not have potentially dilutive ordinary shares as at the approval date of these financial statements.

45. Other comprehensive income

	2011	2010
Exchange differences on translation of foreign operations	**(12,416,819)**	(18,187,345)

V. Notes to Key Items of the Consolidated Financial Statements (continued)

46. Supplementary information to cash flow statement

(1) Supplementary information to cash flow statement

	2011	2010
Adjustment of net profit to cash flows from operating activities:		
Net profit	1,187,036,286	852,061,663
Add: Provision for impairment of assets	68,847,635	149,946,109
Depreciation	118,171,301	111,732,873
Amortisation of intangible assets	16,737,483	31,709,822
(Gains)/Losses from disposal of fixed assets, intangible assets and other long-term assets	(2,522,967)	31,061,772
Finance costs	34,624,848	8,171,426
Investment income	(51,090,507)	(57,927,000)
Increase in deferred tax assets	(16,039,948)	(22,849,406)
Increase/(decrease) in deferred tax liabilities	2,011,386	(1,321,460)
Increase in inventories	(122,337,960)	(689,448,157)
Increase in operating receivables	(488,190,124)	(287,386,540)
Increase in operating payables	494,523,266	628,590,969
Net cash flows from operating activities	1,241,770,699	754,342,071

(2) Cash and cash equivalents

	2011	2010
Cash		
Including: cash on hand	17,594	16,445
Bank deposits on demand	2,053,700,796	1,569,462,883
Closing balance of cash and cash equivalents	2,053,718,390	1,569,479,328

VI. Related party relationships and transactions

1. Parent company

Name of the parent company	Place of registration	Nature of business	Registered capital	Proportion of shareholding (%)	Proportion of votes (%)
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (南車株洲電力機車研究所有限公司)	Zhuzhou, Hunan	Manufacturing	2,436,710,000	54.38	54.38

The parent company of CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. (南車株洲電力機車研究所有限公司) is CSR Corporation Limited.

The ultimate holding party of the Company is CSR Group, which is an enterprise directly under the central government directly administered by the State-owned Assets Supervision and Administration Commission of the State Council.

In 2011, CSR Corporation Limited increased the capital contribution amount by RMB 55,000,000 to CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. After completion of the capital increase, the registered capital and paid-in capital of CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. increased to RMB 2,436,710,000.

2. Subsidiaries

For details on the subsidiaries of the Company, please refer to Note IV. Scope of Consolidation of the consolidated financial statements.

Investments in subsidiaries

	31 December 2011	31 December 2010
Non-listed shares, at cost	**701,773,274**	680,773,274

The amounts of receivables from and payables to subsidiaries in the current assets and current liabilities of the Company are RMB 319,115,173 (31 December 2010: RMB217,154,827) and RMB89,758,946 (31 December 2010: RMB74,890,732) respectively. The amounts of the Company's receivables from and payables to subsidiaries are non-interest bearing and unsecured amounts. Of these amounts, the repayment period of trading amounts is determined by the provisions of the trading terms, whereas non-trading amounts are not subject to any fixed repayment period.

VI. Related party relationships and transactions (continued)

3. Jointly controlled entities and associates

For details on the jointly-controlled entities and associates, please refer to Note V. 9.

4. Other related parties

Name of the companies	Related party relationships
Beijing North Gofront Science Business Co., Ltd.	Corporation controlled by the ultimate holding party
Beijing CSR Electric Sales Co., Ltd.	Corporation controlled by the ultimate holding party
Guangzhou Rapid Transit Vehicles Equipment Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Luoyang Locomotive Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Qishuyan Locomotive Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Sifang Rolling Stock Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Shijiazhuang Rolling Stock Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Zhuzhou Electric Locomotive Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Ziyang Locomotive Co., Ltd.	Corporation controlled by the ultimate holding party
Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.	Corporation controlled by the ultimate holding party
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	Corporation controlled by the ultimate holding party
Qingdao Sifang Coach Repair Co., Ltd.	Corporation controlled by the ultimate holding party
Shijiazhuang King Transportation Equipment Co., Ltd.	Corporation controlled by the ultimate holding party

VI. Related party relationships and transactions (continued)

4. Other related parties (continued)

Name of the companies	Related party relationships
CSR Luoyang Locomotive Works	Corporation controlled by the ultimate holding party
CSR Zhuzhou Electric Locomotive Works	Corporation controlled by the ultimate holding party
Ziyang CSR Electric Locomotive Co., Ltd.	Corporation controlled by the ultimate holding party
CSR Zhuzhou Electric Co., Ltd.	Corporation controlled by the ultimate holding party
Bombardier Sifang (Qingdao) Transportation Ltd.	Jointly controlled entity of the ultimate holding party
Changzhou Ruiyang Transmission Technology Co., Ltd.	Jointly controlled entity of the ultimate holding party
Beijing CSR Times Locomotive & Rolling Stock Co., Ltd.	Corporation controlled by the parent company
Hunan CSR Times Electric Vehicle Co., Ltd.	Corporation controlled by the parent company
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	Corporation controlled by the parent company
Zhuzhou Times Electric Insulation Co., Ltd.	Corporation controlled by the parent company
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd. (formerly known as Zhuzhou Times Thermal Technologies Co., Ltd.)	Corporation controlled by the parent company
Zhuzhou Times New Material Technology Co., Ltd.	Corporation controlled by the parent company
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	Jointly controlled entity of the parent company
Zhuzhou Shiling Transportation Equipment Co., Ltd. ("Shiling")	Jointly controlled entity of the Company
Zhuzhou Siemens Traction Equipment Ltd. ("Zhuzhou Siemens")	Associate of the Company

VI. Related party relationships and transactions (continued)

5. Major transactions between the group and its related parties

(1) Sales of goods to related parties

	2011	2010
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	**2,585,787,603**	1,426,849,208
CSR Zhuzhou Electric Locomotive Co., Ltd	**1,473,096,827**	1,874,700,820
CSR Qishuyan Locomotive Co., Ltd.	**359,975,601**	312,510,611
CSR Ziyang Locomotive Co., Ltd.	**39,142,666**	433,550
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**34,816,031**	27,751,546
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	**28,097,367**	17,780,566
Hunan CSR Times Electric Vehicle Co., Ltd.	**19,413,203**	23,422,317
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**17,179,726**	4,341,045
Shijiazhuang King Transportation Equipment Co., Ltd.	**10,989,573**	7,392,440
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	**5,949,053**	7,850,931
Beijing North Gofront Science Business Co., Ltd.	**4,960,680**	6,299,590
Guangzhou Rapid Transit Vehicles Equipment Co., Ltd.	**4,913,675**	—
CSR Zhuzhou Electric Co., Ltd.	**1,515,635**	374,851
CSR Louyang Locomotive Co., Ltd.	**931,205**	32,479
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	**494,962**	11,333
Beijing CSR Times Locomotive & Rolling Stock Co., Ltd.	**602,480**	686,273
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	**34,450**	—
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	**729,516**	2,168,972
Ziyang CSR Electric Locomotive Co., Ltd.	**—**	1,761
Zhuzhou Times New Material Technology Co., Ltd.	**698,200**	599,250
Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.	**28,034**	30,427
Qingdao Sifang Coach Repair Co., Ltd.	**146,201**	355,921
Bombardier Sifang (Qingdao) Transportation Ltd.	**157,186**	416,362
CSR Sifang Rolling Stock Co., Ltd.	**204,492**	55,150
CSR Zhuzhou Electric Locomotive Works	**—**	6,038
CSR Luoyang Locomotive Works	**563,015**	27,692
Shiling	**—**	608,124
	4,590,427,381	3,714,707,257

VI. Related party relationships and transactions (continued)

5. Major transactions between the group and its related parties (continued)

(2) Purchases of goods from related parties

	2011	2010
Shiling	380,967,196	193,690,372
CSR Qishuyan Locomotive Co., Ltd.	224,358,974	128,205,128
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	86,458,553	108,911,066
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	74,012,087	86,706,847
CSR Zhuzhou Electric Co., Ltd.	57,208,352	28,492,307
CSR Zhuzhou Electric Locomotive Co., Ltd.	50,213,974	113,042,734
Changzhou Ruiyang Transmission Technology Co., Ltd.	34,866,325	26,155,214
Ningbo Jiangbei Goufang Herong Electric Co., Ltd.	31,509,511	44,071,808
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	16,385,331	103,419
Zhuzhou Times New Material Technology Co., Ltd.	11,232,412	1,925,724
Beijing CSR Electric Sales Co., Ltd.	4,128,205	—
Hunan CSR Times Electric Vehicle Co., Ltd.	2,796,529	1,195,839
Zhuzhou Times Electric Insulation Co., Ltd.	1,593,410	1,272,072
CSR Sifang Rolling Stock Co., Ltd.	1,497,436	10,256
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	—	688,727
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	259,829	425,228
CSR Luoyang Locomotive Works	—	62,803
Shijiazhuang King Transportation Equipment Co., Ltd.	339,316	4,421,795
CSR Luoyang Locomotive Co., Ltd.	184,800	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	63,872	113,299
	978,076,112	739,494,638

(3) Sales of electricity to related parties

	2011	2010
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	122,054	—
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	—	60,324
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	825,072	815,982
Zhuzhou Siemens	599,130	936,277
	1,546,256	1,812,583

VI. Related party relationships and transactions (continued)

5. Major transactions between the group and its related parties (continued)

(4) Related party lease

Income from assets leased to related parties

	2011	2010
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	1,391,522	2,164,503
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	350,000	350,000
Zhuzhou Siemens	1,921,539	3,586,874
	3,663,061	6,101,377

Expenses incurred from assets leased by related parties

	2011	2010
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	652,125	117,851

(5) Technical service income from related parties

	2011	2010
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	—	1,500,000
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	—	513,180
	—	2,013,180

(6) Remuneration of key management

	2011	2010
Remuneration of key management	3,267,969	2,643,214

Note: Transactions of goods and services with related parties:

The terms of the above sales transactions, purchase transactions and service provision transactions with related parties were agreed by both parties.

VI. Related party relationships and transactions (continued)

5. Major transactions between the group and its related parties (continued)

(7) Commitments between the Group and related parties

The commitments signed between the Group and the respective related parties which are not required to be presented in the financial statements as at the balance sheet date are as follows:

Sales of goods to related parties

	2011
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	2,211,118,124
CSR Zhuzhou Electric Locomotive Co., Ltd.	144,826,780
CSR Qishuyan Locomotive Co., Ltd.	103,290,000
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	39,600,000
CSR Ziyang Locomotive Co., Ltd.	10,388,949
Shijiazhuang King Transportation Equipment Co., Ltd.	5,060,000
Hunan CSR Times Electric Vehicle Co., Ltd.	1,700,000
	2,515,983,853

Purchases of goods from related parties

	2011
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	10,247,968
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	27,339,070
CSR Zhuzhou Electric Co., Ltd.	2,360,125
Hunan CSR Times Electric Vehicle Co., Ltd.	8,352
CSR Qishuyan Locomotive Co., Ltd.	25,317,374
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	529,060
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	6,806,216
Zhuzhou Times New Material Technology Co., Ltd.	4,391
Changzhou Ruiyang Transmission Technology Co., Ltd.	38,221,709
CSR Luoyang Locomotive Co., Ltd.	1,630,000
	112,464,265

VI. Related party relationships and transactions (continued)

6. Amounts due from and due to related parties

	31 December 2011	31 December 2010
Trade receivables:		
CSR Zhuzhou Electric Locomotive Co., Ltd.	**27,231,380**	97,855,312
Beijing North Gofront Science Business Co., Ltd.	**1,116,884**	531,903
CSR Zhuzhou Electric Co., Ltd.	**498,614**	262,786
Ziyang CSR Electric Locomotive Co., Ltd.	**—**	3,151
CSR Ziyang Locomotive Co., Ltd.	**17,061,819**	—
CSR Qishuyan Locomotive Co., Ltd.	**14,434,745**	23,092,702
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	**334,993,249**	40,020,283
CSR Sifang Rolling Stock Co., Ltd.	**197,904**	—
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	**11,059,375**	6,042,252
Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.	**—**	2,800
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	**1,443,750**	1,762,483
CSR Luoyang Locomotive Co., Ltd.	**418,508**	49,050
Shijiazhuang King Transportation Equipment Co., Ltd.	**2,958,585**	5,347,535
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**15,813,310**	3,084,240
Beijing CSR Times Locomotive & Rolling Co., Ltd.	**—**	502,600
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**148,000**	622,925
Qingdao Sifang Coach Repair Co., Ltd.	**47,710**	199,350
Bombardier Sifang (Qingdao) Transportation Ltd.	**60,000**	223,980
CSR Luoyang Locomotive Works	**16,557**	—
Hunan CSR Times Electric Vehicle Co., Ltd.	**115,743**	1,409,729
Guangzhou Rapid Transit Vehicles Equipment Co., Ltd.	**1,374,500**	—
	428,990,633	181,013,081

VI. Related party relationships and transactions (continued)

6. Amounts due from and due to related parties (continued)

	31 December 2011	31 December 2010
Bills receivable:		
CSR Zhuzhou Electric Locomotive Co., Ltd.	**205,000,000**	404,000,000
CSR Qishuyan Locomotive Co., Ltd.	**—**	2,500,000
CSR Shijiazhuang Rolling Stock Co., Ltd.	**—**	200,000
CSR Ziyang Locomotive Co., Ltd.	**4,550,000**	1,200,000
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	**380,000,000**	103,000,000
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	**1,300,000**	20,700,000
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	**2,760,000**	2,100,000
CSR Luoyang Locomotive Co., Ltd.	**1,750,000**	3,980,000
Hunan CSR Times Electric Vehicle Co., Ltd.	**600,000**	1,369,750
Beijing CSR Times Locomotive & Rolling Co., Ltd.	**400,000**	—
Shijiazhuang King Transportation Equipment Co., Ltd.	**4,000,000**	—
Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.	**2,500,000**	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**342,373**	2,113,885
	603,202,373	541,163,635

	31 December 2011	31 December 2010
Prepayments:		
CSR Corporation Limited	**118,100**	84,300
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**—**	4,756
CSR Qishuyan Locomotive Co., Ltd.	**12,000**	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**100,000**	—
	230,100	89,056

	31 December 2011	31 December 2010
Other receivables:		
CSR Qishuyan Locomotive Co., Ltd.	**50,000**	50,000
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**3,191,424**	50,000
CSR Zhuzhou Electric Locomotive Works	**1,500**	1,500
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**80,087**	—
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	**40,000**	—
CSR Zhuzhou Electric Locomotive Co., Ltd.	**1,120**	—
Zhuzhou Siemens	**25,349**	47,409
	3,389,480	148,909

VI. Related party relationships and transactions (continued)

6. Amounts due from and due to related parties (continued)

	31 December 2011	31 December 2010
Trade payables:		
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	**633,459**	3,708,593
CSR Zhuzhou Electric Co., Ltd.	**7,365,497**	6,963,564
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	**—**	12,000
Shijiazhuang King Transportation Equipment Co., Ltd.	**391,188**	34,188
CSR Zhuzhou Electric Locomotive Co., Ltd.	**10,000**	—
CSR Luoyang Locomotive Co., Ltd.	**184,800**	73,480
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**729,009**	—
CSR Sifang Rolling Stock Co., Ltd.	**1,212,231**	—
Zhuzhou Times New Material Technology Co., Ltd.	**—**	251,773
Zhuzhou Times Electric Insulation Co., Ltd.	**114,672**	377,255
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	**11,655,442**	9,151,928
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**4,340,630**	10,200,535
Hunan CSR Times Electric Vehicle Co., Ltd.	**—**	132,066
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	**798,000**	—
Shiling	**18,214,573**	80,529,351
Beijing CSR Electric Sales Co., Ltd.	**1,104,000**	—
Changzhou Ruiyang Transmission Technology Co., Ltd.	**2,803,350**	2,802,870
	49,556,851	114,237,603

VI. Related party relationships and transactions (continued)

6. Amounts due from and due to related parties (continued)

	31 December 2011	31 December 2010
Bills payable:		
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	4,257,700	—
Zhuzhou Times New Material Technology Co., Ltd.	2,700,000	1,295,000
CSR Sifang Rolling Stock Co., Ltd.	200,000	—
Zhuzhou Times Electric Insulation Co., Ltd.	—	480,000
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	7,022,300	—
Shiling	58,900,000	—
	73,080,000	1,775,000

	31 December 2011	31 December 2010
Receipts in advance:		
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	—	33,919,600
CSR Zhuzhou Electric Co., Ltd.	145,200	—
Beijing North Gofront Science Business Co., Ltd.	85,706	—
	230,906	33,919,600

	31 December 2011	31 December 2010
Other payables:		
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	—	23,292
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	4,850,000	—
	4,850,000	23,292

The Group's bills receivable and bills payable to related parties are non-interest bearing, secured and have fixed terms of repayment. Other amounts due from and due to related parties are non-interest bearing and unsecured. In particular, the repayment period of trading amounts is subject to the provisions of the trading terms. Non-trading amounts have no fixed repayment periods.

The above related party transactions between the Group and companies controlled by the parent company, companies controlled by the ultimate holding party and jointly controlled entities of the ultimate holding party also constituted connected transactions or continuing connected transactions under the provisions of Chapter 14A of the Hong Kong Listing Rules.

VII. Contingencies

As of the balance sheet date, the Group had no contingencies which should be disclosed.

VIII. Commitments

	31 December 2011	31 December 2010
Capital commitments:		
Contracted, but not provided for	**152,075,786**	191,473,349
Authorised but not contracted for	**831,914,703**	184,976,294
	983,990,489	376,449,643
Investment commitments:		
Contracted, but not fulfilled	**49,934,800**	—

IX. Post Balance Sheet Events

As at 29 March 2012, the fifth meeting of the third session of the Board of the Company approved the profit distribution plan for 2011 to distribute cash dividends of RMB 368,646,917 in total to all shareholders, equivalent to the distribution of RMB0.340 per share (tax inclusive) based on the total number of 1,084,255,637 shares of the Company.

X. Other Significant Events

1. Operating lease

As lessor

The leases of the Group as lessor were the operating leases of buildings. Please refer to Note V. 11 for details. According to the lease contracts entered into with lessees, the minimum lease receivables under irrevocable leases were as follows:

	2011	2010
Within 1 year, inclusive	**5,861,413**	5,478,818
1 to 2 years, inclusive	**4,611,695**	4,440,891
2 to 3 years, inclusive	**1,537,232**	4,611,695
Over 3 years	**—**	1,537,232
	12,010,340	16,068,636

X. Other Significant Events (continued)

1. Operating lease (continued)

As lessee

Significant operating lease

According to the lease contracts entered into with lessors, the minimum lease payables under irrevocable leases were as follows:

	2011	2010
Within 1 year, inclusive	7,029,655	5,858,794
1 to 2 years, inclusive	3,032,139	3,937,512
2 to 3 years, inclusive	2,411,162	3,747,978
Over 3 years	4,246,110	13,827,104
	16,719,066	27,371,388

2. Segment reporting

Operating segments

For management purposes, the Group's operating activities are attributable to a single operating segment, focusing on provision of rolling stock and its extension products and services in the market . Therefore, no other operating segment is presented.

Group information

Products and services information

Revenue from external customers

	2011	2010
Rolling stock and its extension products and services	7,124,774,974	5,886,854,235

X. Other Significant Events (continued)

2. Segment reporting (continued)

Group information (continued)

Geographical information

Revenue from external customers

	2011	2010
Mainland China	**6,803,704,691**	5,556,666,751
Other countries and regions	**321,070,283**	330,187,484
	7,124,774,974	5,886,854,235

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	31 December 2011	31 December 2010
Mainland China	**1,801,653,602**	1,641,525,889
Other countries and regions	**252,889,974**	220,046,128
	2,054,543,576	1,861,572,017

Non-current assets are analysed by geographic locations where the assets are located, excluding financial assets and deferred tax assets.

Information of major customers

In 2011, the Group's operating revenue (which accounted for more than 10% of the Group's total revenue) of RMB4,592,958,843 was derived from sales to a single customer, including sales to a group of entities which are known to be under the control of the customer (2010: RMB3,714,099,133 from a single customer).

X. Other Significant Events (continued)

3. Financial instruments and their risks

The Group's principal financial instruments comprise bank borrowings, short-term bonds payable, cash and bank balances. 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 main risks arising from the Group's financial instruments are credit risk, liquidity risk and market risk.

Classification of financial instruments

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

2011

Financial Assets

	Loans and receivables
Cash and bank balances	2,157,721,027
Bills receivable	1,051,609,300
Trade receivables	1,119,253,348
Other receivables	103,373,942
Non-current assets due within one year	1,092,595
Other current assets	310,000,000
Long-term receivables	1,772,676
	4,744,822,888

Financial Liabilities

	Other financial liabilities
Short-term borrowings	139,000,000
Short-term bonds payable	500,000,000
Bills payable	448,604,661
Trade payables	906,553,647
Interests payable	12,468,969
Other payables	134,599,283
Long-term borrowings (inclusive of long-term borrowings due within 1 year)	60,251,244
	2,201,477,804

X. Other Significant Events (continued)

3. Financial instruments and their risks (continued)

Classification of financial instruments (continued)

2010

Financial Assets

	Loans and receivables
Cash and bank balances	1,681,459,290
Bills receivable	791,448,692
Trade receivables	901,235,717
Other receivables	26,649,880
Long-term receivables	4,049,142
	3,404,842,721

Financial Liabilities

	Other financial liabilities
Short-term bonds payable	500,000,000
Bills payable	196,086,850
Trade payables	1,012,637,815
Interests payable	6,845,833
Other payables	103,506,159
Long-term borrowings (inclusive of long-term borrowings due within 1 year)	3,071,488
	1,822,148,145

Credit risk

Credit risk is the risk of financial loss on one party of a financial instrument due to the failure of another party meet its obligations.

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. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the specific approval of the department of credit control in the Group.

The credit risk of the Group's other financial assets, which comprise cash and bank balances and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

X. Other Significant Events (continued)

3. Financial instruments and their risks (continued)

Credit risk (continued)

The major customers of the Group are CSR Corporation Limited and its subsidiaries as well as other state-owned enterprises and institutions in the railway transportation industry. 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. As at 31 December 2011, the Group had certain concentrations of credit risk as 29.0% (31 December 2010: 11.0%) and 41.1% (31 December 2010: 28.0%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in Note V. 3.

As at 31 December, the maturity profile of the Group's financial assets which are regarded that no impairment has been incurred are analysed as follows:

2011

			Overdue but not impaired	
	Total	Neither overdue nor impaired	Within six months	Over six months
Trade receivables	902,634,708	902,634,708	—	—
Bills receivable	1,051,609,300	1,051,609,300	—	—
Other receivables	63,177,838	63,177,838	—	—
Non-current assets due within one year	1,092,595	1,092,595	—	—
Other current assets	310,000,000	310,000,000	—	—
Long-term receivables	1,772,676	1,772,676	—	—
	2,330,287,117	2,330,287,117	—	—

2010

			Overdue but not impaired	
	Total	Neither overdue nor impaired	Within six months	Over six months
Trade receivables	733,030,027	733,030,027	—	—
Bills receivable	791,448,692	791,448,692	—	—
Other receivables	17,334,967	17,334,967	—	—
Long-term receivables	4,049,142	4,049,142	—	—
	1,545,862,828	1,545,862,828	—	—

As at 31 December 2011 and 31 December 2010, trade receivables that were neither overdue nor impaired were related to large number of clients who haven't hold any default recently.

X. Other Significant Events (continued)

3. Financial instruments and their risks (continued)

Liquidity risk

Liquidity risk is the risk that an enterprise may encounter shortage of funds in meeting obligations associated with financial liabilities.

The Group monitors its risk of shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and expected cash flows from the Group's operations.

The Group's objective is to maintain a balance between the continuity of funding and flexibility through the use of various financing means, such as bills settlement, bank borrowings and short-term bonds. The Group has obtained banking facilities from several commercial banks to meet working capital requirements and capital expenditures.

The Group's management monitors the liquidity position of the Group on an ongoing basis to ensure the availability of sufficient liquid funds to meet all obligations as they fall due and to make the most efficient use of the Group's financial resources.

The table below summarizes the maturity profile of the Group's financial assets and liabilities based on the undiscounted contractual cash flows:

2011

Financial Assets

	Within 1 year	1 to 2 years	2 to 5 years	Total
Cash and bank balances	2,157,721,027	—	—	2,157,721,027
Bills receivable	1,051,609,300	—	—	1,051,609,300
Trade receivables	1,119,253,348	—	—	1,119,253,348
Other receivables	103,373,942	—	—	103,373,942
Non-current assets due within one year	1,258,766	—	—	1,258,766
Other current assets	310,000,000	—	—	310,000,000
Long-term receivables	—	1,258,766	629,383	1,888,149
	4,743,216,383	1,258,766	629,383	4,745,104,532

Financial Liabilities

	Within 1 year	1 to 2 years	2 to 5 years	Total
Short-term borrowings	145,870,169	—	—	145,870,169
Short-term bonds payable	523,850,000	—	—	523,850,000
Bills payable	448,604,661	—	—	448,604,661
Trade payables	906,553,647	—	—	906,553,647
Other payables	134,599,283	—	—	134,599,283
Long-term borrowings (inclusive of long-term borrowings due within 1 year)	4,742,694	38,706,699	20,521,933	63,971,326
	2,164,220,454	38,706,699	20,521,933	2,223,449,086

X. Other Significant Events (continued)

3. Financial instruments and their risks (continued)

Liquidity risk (continued)

2010

Financial Assets

	Within 1 year	1 to 2 years	2 to 5 years	Total
Cash and bank balances	1,681,459,290	—	—	1,681,459,290
Bills receivable	791,448,692	—	—	791,448,692
Trade receivables	901,235,717	—	—	901,235,717
Other receivables	26,649,880	—	—	26,649,880
Long-term receivables	—	1,258,766	3,146,915	4,405,681
	3,400,793,579	1,258,766	3,146,915	3,405,199,260

Financial Liabilities

	Within 1 year	1 to 2 years	2 to 5 years	Total
Short-term bonds payable	515,900,000	—	—	515,900,000
Bills payable	196,086,850	—	—	196,086,850
Trade payables	1,012,637,815	—	—	1,012,637,815
Other payables	103,506,159	—	—	103,506,159
Long-term borrowings (inclusive of long-term borrowings due within 1 year)	1,074,964	1,053,322	1,687,288	3,815,574
	1,829,205,788	1,053,322	1,687,288	1,831,946,398

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. The main market risk that the Group is exposed to includes interest rate risk and foreign currency risk.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. The Group's exposure to the risk of changes in market interest rates primarily relates to the Group's bank borrowings with a floating interest rate.

The table below is a sensitivity analysis of interest rate risk. It reflects the effects on the total profit (through the impact on floating rate loans), when there are reasonable and potential changes in interest rates, with all other variables held constant.

	Increase/ (decrease) in basis points	Increase/ (decrease) in total profit	Increase/ (decrease) in shareholders' equity*
2011	+100	(1,590,508)	—
	-100	1,590,508	—
2010	+100	—	—
	-100	—	—

* excluding retained earnings.

X. Other Significant Events (continued)

3. Financial instruments and their risks (continued)

Market risk (continued)

Foreign currency risk

Foreign currency risk is that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Group's exposure to foreign currency risk mainly relates to its operating activities (when revenue and expenses are settled in a foreign currency that is different from the functional currency of the Group) and its net investment in overseas subsidiaries.

The businesses of the Group are principally conducted in Mainland China. While most of the transactions of the Group are principally conducted in RMB, certain of their sales, purchases and borrowings are denominated in other currencies including mainly the Canadian dollar, Great British pound, Japanese yen and United States dollar. Fluctuation of exchange rates of RMB against such foreign currencies can affect the Group's results of operations.

The Group is committed to reducing the foreign currency risk to a minimum, principally through closely tracking the changes of market exchange rates and adopting positive response measures. For the export business, the Group shall quote that pursuant to the expected value of exchange rate changes with respect to external business contracts under negotiation. The exchange rate floating ranges and the risks to be borne by both parties shall be clearly specified in relevant provisions during negotiations. For the import business, each entity of the Group is required to grasp the import settlement opportunities.

The following table demonstrates the sensitivity analysis to a reasonably possible change in the exchange rates of the Japanese yen, United States dollar, Great British pound and Canadian dollar, with all other variables held constant, of the Group's total profit. As the carrying amounts of financial instruments denominated in other currencies are not significant, their sensitivity analyses are omitted here.

2011

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in total profit	Increase/ (decrease) in shareholders' equity*
Japanese yen			
If RMB strengthens against Japanese Yen	+10%	23,074,064	—
If RMB weakens against Japanese Yen	-10%	(23,074,064)	—
United States dollar			
If RMB strengthens against United States dollar	+10%	(11,285,729)	—
If RMB weakens against United States dollar	-10%	11,285,729	—
Great British pound			
If RMB strengthens against Great British pound	+10%	5,122,987	—
If RMB weakens against Great British pound	-10%	(5,122,987)	—
Canadian dollar			
If RMB strengthens against Canadian dollar	+10%	183,082	—
If RMB weakens against Canadian dollar	-10%	(183,082)	—

* excluding retained earnings.

X. Other Significant Events (continued)

3. Financial instruments and their risks (continued)

Market risk (continued)

Foreign currency risk (continued)

2010

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in total profit	Increase/ (decrease) in shareholders' equity*
Japanese yen			
If RMB strengthens against Japanese Yen	+10%	16,291,968	—
If RMB weakens against Japanese Yen	-10%	(16,291,968)	—
United States dollar			
If RMB strengthens against United States dollar	+10%	(9,576,758)	—
If RMB weakens against United States dollar	-10%	9,576,758	—
Great British pound			
If RMB strengthens against Great British pound	+10%	(1,828,131)	—
If RMB weakens against Great British pound	-10%	1,828,131	—
Canadian dollar			
If RMB strengthens against Canadian dollar	+10%	2,510,687	—
If RMB weakens against Canadian dollar	-10%	(2,510,687)	—

* excluding retained earnings.

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 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 year ended 31 December 2011.

X. Other Significant Events (continued)

3. Financial instruments and their risks (continued)

Capital Management (continued)

The Group monitors capital using a gearing ratio, which is net debt divided by capital plus net debt. Net debt includes all borrowings, short-term bonds, bills payable, trade payables, receipts in advance, employee benefits payable, other taxes payable excluding income tax payable, interests payable and other payables, less cash and cash equivalents. The gearing ratio as at the balance sheet date was as follows:

	2011	2010
Short-term borrowings	**139,000,000**	—
Short-term bonds payable	**500,000,000**	500,000,000
Bills payable	**448,604,661**	196,086,850
Trade payables	**906,553,647**	1,012,637,815
Receipts in advance	**351,164,281**	243,057,865
Employee benefits payable	**15,390,522**	7,680,029
Taxes payable (excluding income tax payable)	**100,518,913**	30,927,644
Interests payable	**12,468,969**	6,845,833
Other payables	**134,599,283**	103,506,159
Long-term borrowings (inclusive of amounts due within 1 year)	**60,251,244**	3,071,488
Less: cash and cash equivalents	**(2,053,718,390)**	(1,569,479,328)
Net debt	**614,833,130**	534,334,355
Equity attributable to shareholders of the Parent	**5,316,660,857**	4,472,947,015
Capital and net debt	**5,931,493,987**	5,007,281,370
Gearing ratio	**10.4%**	10.7%

Fair value

Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable and willing parties in an arm's length transaction. The following methods and assumptions were used to estimate the fair values.

The fair value of cash and bank balances, bills receivable, trade receivables, other receivables, other current assets (principal-protected wealth management banking products), bills payable, trade payables, interests payable, other payables approximate to their carrying amounts due to their short maturity terms.

The fair value of non-current assets due within one year, long-term receivables, long-term borrowings, short-term borrowings, short-term bonds payable are determined by discounted future cash flows using the market yield rates of other financial instruments with substantively similar contract terms and features as their discounting rates.

X. Other Significant Events (continued)

3. Financial instruments and their risks (continued)

Fair value (continued)

The fair value of listed financial instruments are determined based on the quoted market prices.

Financial Assets

	Carrying amount		Fair value	
	2011	2010	**2011**	2010
Cash and bank balances	**2,157,721,027**	1,681,459,290	**2,157,721,027**	1,681,459,290
Bills receivable	**1,051,609,300**	791,448,692	**1,051,609,300**	791,448,692
Trade receivables	**1,119,253,348**	901,235,717	**1,119,253,348**	901,235,717
Other receivables	**103,373,942**	26,649,880	**103,373,942**	26,649,880
Non-current assets due within 1 year	**1,092,595**	—	**1,092,595**	—
Other current assets	**310,000,000**	—	**310,000,000**	—
Long-term receivables	**1,772,676**	4,049,142	**1,772,676**	4,049,142
	4,744,822,888	3,404,842,721	**4,744,822,888**	3,404,842,721

Financial Liabilities

	Carrying amount		Fair value	
	2011	2010	**2011**	2010
Short-term borrowings	**139,000,000**	—	**139,000,000**	—
Short-term bonds payable	**500,000,000**	500,000,000	**497,812,000**	497,545,500
Bills payable	**448,604,661**	196,086,850	**448,604,661**	196,086,850
Trade payables	**906,553,647**	1,012,637,815	**906,553,647**	1,012,637,815
Interests payable	**12,468,969**	6,845,833	**12,468,969**	6,845,833
Other payables	**134,599,283**	103,506,159	**134,599,283**	103,506,159
Long-term borrowings (inclusive of long-term borrowings due within 1 year)	**60,251,244**	3,071,488	**60,251,244**	3,071,488
	2,201,477,804	1,822,148,145	**2,199,289,804**	1,819,693,645

X. Other Significant Events (continued)

4. Other financial information

a)

	31 December 2011		31 December 2010	
	Group	**Company**	Group	Company
Net current assets	**3,618,521,720**	**3,213,603,704**	2,802,631,249	2,321,813,707
Total assets less current liabilities	**5,734,555,521**	**5,361,648,611**	4,711,930,009	4,363,035,485

b)

	2011	2010
Contributions paid to pension plans	**79,983,437**	51,968,809

As at 31 December 2011, the Group was not mandated to withdraw any amount of contributions in order to reduce the contribution amounts to pension plans in future years (2010: Nil).

5. Remuneration of Directors and supervisors

Remuneration of Directors and supervisors for the current year is disclosed as follows:

	2011	2010
Fees	**767,518**	877,107
Other emoluments:		
Salaries, allowances and benefits in kind	**1,327,338**	896,226
Performance related bonuses	**1,029,977**	794,367
Pension scheme contributions	**143,136**	75,514
	2,500,451	1,766,107
	3,267,969	2,643,214

X. Other Significant Events (continued)

5. Remuneration of Directors and supervisors (continued)

Directors' and supervisors' remuneration for 2011 are as follows:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
Executive directors					
Ding Rongjun	—	—	—	—	—
Li Donglin	—	400,228	519,900	35,784	955,912
	—	400,228	519,900	35,784	955,912
Non-executive directors					
Deng Huijin	—	—	—	—	—
Ma Yunkun	59,643	—	—	—	59,643
Yan Wu	—	313,228	114,200	35,784	463,212
	59,643	313,228	114,200	35,784	522,855
Independent non-executive directors					
Gao Yucai	71,429	—	—	—	71,429
Chan Kam Wing, Clement	214,286	—	—	—	214,286
Pao Ping Wing	214,286	—	—	—	214,286
Tan Xiao'ao (Note 1)	32,526	—	—	—	32,526
Liu Chunru	71,429	—	—	—	71,429
	603,956	—	—	—	603,956
Supervisors					
He Wencheng	—	—	—	—	—
Pang Yiming	—	260,728	171,877	35,784	468,389
Zhou Guifa	—	353,154	224,000	35,784	612,938
Shuai Tianlong (Note 2)	32,526	—	—	—	32,526
Wang Kun (Note 2)	32,526	—	—	—	32,526
Geng Jianxin (Note 3)	38,867	—	—	—	38,867
	103,919	613,882	395,877	71,568	1,185,246
	767,518	1,327,338	1,029,977	143,136	3,267,969

X. Other Significant Events (continued)

5. Remuneration of Directors and supervisors (continued)

Directors' and supervisors' remuneration for 2010 are as follows:

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
Executive directors					
Ding Rongjun	—	15,874	—	—	15,874
Li Donglin	—	290,832	365,956	19,989	676,777
	—	306,706	365,956	19,989	692,651
Non-executive directors					
Song Yali	11,905	—	—	—	11,905
Lu Penghu	9,921	—	—	—	9,921
Deng Huijin	9,921	—	—	—	9,921
Ma Yunkun	59,643	—	—	—	59,643
Yan Wu	—	24,340	81,600	2,221	108,161
	91,390	24,340	81,600	2,221	199,551
Independent non-executive directors					
Gao Yucai	71,429	—	—	—	71,429
Chan Kam Wing, Clement	214,286	—	—	—	214,286
Pao Ping Wing	214,286	—	—	—	214,286
Tan Xiao'ao	71,429	—	—	—	71,429
Liu Chunru	71,429	—	—	—	71,429
	642,859	—	—	—	642,859
Supervisors					
He Wencheng	—	—	—	—	—
Zhang Liqiang	—	7,935	—	—	7,935
Pang Yiming	—	239,248	97,377	26,652	363,277
Zhou Guifa	—	315,219	249,434	26,652	591,305
Shuai Tianlong	71,429	—	—	—	71,429
Liu Ke'an	—	2,778	—	—	2,778
Wang Kun	71,429	—	—	—	71,429
	142,858	565,180	346,811	53,304	1,108,153
	877,107	896,226	794,367	75,514	2,643,214

X. Other Significant Events (continued)

5. Remuneration of Directors and supervisors (continued)

In 2011, changes of directors and supervisors are as follows:

Note 1: The term of Mr. Tan Xiao'ao as independent non-executive Director expired on 10 June 2011.

Note 2: The terms of Mr. Shuai Tianlong and Ms. Wang Kun as independent supervisors expired on 10 June 2011.

Note 3: On 10 June 2011, Mr. Geng Jianxin was appointed as independent supervisor.

In 2011, the five highest paid employees of the Group are as follows:

	2011	2010
Director and supervisor	**1**	—
Non-director and non-supervisor employee	**4**	5
	5	5

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

	2011	2010
Salaries, allowances and benefits in kind	**3,861,957**	4,272,464
Performance related bonuses	**771,505**	979,686
Pension scheme contributions	**195,532**	217,171
	4,828,994	5,469,321

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

	2011	2010
Nil to HKD1,000,000	**2**	3
HKD1,000,001 to HKD2,000,000	**1**	1
HKD2,000,001 to HKD2,500,000	**1**	1
	4	5

In 2011, there were no director, supervisor or any of the non-director and non-supervisor highest paid individual who waived or agreed to waive any emoluments, and no emoluments were paid by the Group to any director, supervisor and any non-director and non-supervisor highest paid individual as an inducement to join or upon joining the Group, or as compensation for loss of office.

X. Other Significant Events (continued)

6. Reconciliation of differences in shareholders' equity and net profits in the financial statements for 2010 prepared under International Financial Reporting Standards (IFRSs) upon conversion to financial statements prepared under PRC Accounting Standards

	2010
Shareholders' equity	
Shareholders' equity in the financial statements under IFRSs	4,502,738,741
Differences in accounting standards:	
Revaluation surplus of assets (Note)	67,024,329
Shareholders' equity in the financial statements under PRC Accounting Standards	4,569,763,070
Net profit	
Net profit in the financial statements under IFRSs	853,675,947
Differences in accounting standards:	
Amortisation of revaluation surplus of assets (Note)	(1,614,284)
Net profit in financial statements under PRC Accounting Standards	852,061,663

Note: In 2005, CSR Zhuzhou Electric Locomotive Research Institute ("CSR ZELRI"), as the principal promoter of the Company, injected the relevant businesses into the Company as capital contribution to establish of the Company. The relevant assets and liabilities were revaluated and measured at fair value, and were recognised in the Company's and its subsidiaries' financial statements under PRC Accounting Standards. Pursuant to the accounting policy adopted in the financial statements prepared under International Financial Reporting Standards (IFRSs), the reorganisation by which CSR ZELRI injected the relevant businesses into the Company constituted a reorganisation of entities under common control in a manner similar to pooling of interest, the relevant assets and liabilities were stated at historical amounts and hence resulting in differences between both standards.

Had the Group still prepared the financial statements for the current year in accordance with IFRSs, the net profit for the current year would have been RMB 1,187,800,514 which was RMB 764,228 higher than that calculated under PRC Accounting Standards. The difference was mainly due to the reversal of additional depreciation and amortisation charged for the current year which attributed to the revaluation surplus of fixed assets and intangible assets.

XI. Notes to Key Items of the Company's Financial Statements

1. Trade receivables

The credit period of trade receivables is usually 6 months. The trade receivables bear no interest.

The aging analysis of the trade receivables is as follows:

	31 December 2011	31 December 2010
Within 6 months	**777,536,646**	544,323,219
6 months to 1 year	**143,298,311**	68,621,423
1 to 2 years	**34,009,509**	71,048,905
2 to 3 years	**22,735,523**	15,969,535
Over 3 years	**7,077,691**	4,482,582
	984,657,680	704,445,664
Less: provision for bad debt	**30,057,969**	28,227,240
	954,599,711	676,218,424

The movements of provision for bad debt are as follows:

	2011	2010
Opening balance	**28,227,240**	30,734,771
Provision in the current year	**5,383,581**	743,426
Transfer in the current year	**448,413**	—
Reversal in the current year	**(3,955,767)**	—
Write-off in the current year	**(45,498)**	(3,250,957)
Closing balance	**30,057,969**	28,227,240

In 2011, trade receivables that were derecognised as transfer of financial assets are as follows:

	Derecognised amount	Loss in relation to derecognition
Non-recourse factoring of trade receivables	**99,613,555**	**3,071,971**

The Company had no trade receivables derecognised as transfer of financial assets in 2010.

Details of the amounts due from related parties in the balance of trade receivables are disclosed in Note XI.8. Amounts due from and due to related parties.

XI. Notes to Key Items of the Company's Financial Statements (continued)

2. Other receivables

The aging analysis of the other receivables is as follows:

	31 December 2011	31 December 2010
Within 1 year	**176,126,951**	43,532,913
1 to 2 years	**34,425,941**	41,265,925
2 to 3 years	**41,053,063**	97,316,580
Over 3 years	**94,218,080**	51,500
	345,824,035	182,166,918
Less: provision for bad debt	**2,532,950**	2,532,950
	343,291,085	179,633,968

The movements of provision for bad debt are as follows:

	2011	2010
Opening balance	**2,532,950**	2,982,950
Write-off in the current year	**—**	(450,000)
Closing balance	**2,532,950**	2,532,950

Details of the amounts due from related parties in the balance of other receivables are disclosed in Note XI.8. Amounts due from and due to related parties.

XI. Notes to Key Items of the Company's Financial Statements (continued)

3. Long-term equity investments

2011

	Opening balance	Increase	Closing balance	Impairment provision	Net value at end of year	Cash dividend
Unlisted investments:						
Equity method:						
Jointly controlled entity						
Shiling	122,691,802	31,843,789	154,535,591	—	154,535,591	11,000,000
Associate						
Zhuzhou Siemens	45,012,136	2,906,041	47,918,177	—	47,918,177	4,061,710
Cost method:						
Times Electronics	182,977,618	—	182,977,618	—	182,977,618	140,000,000
Ningbo Times	33,507,255	—	33,507,255	—	33,507,255	20,000,000
Times Information	29,000,000	—	29,000,000	—	29,000,000	—
Times USA	3,187,516	—	3,187,516	—	3,187,516	—
Times Equipment	34,561,157	—	34,561,157	—	34,561,157	20,000,000
Shenyang Times	3,000,000	—	3,000,000	—	3,000,000	—
Baoji Times	160,000,000	—	160,000,000	—	160,000,000	—
Kunming Electrics	3,000,000	—	3,000,000	—	3,000,000	—
Hangzhou Electrics	15,000,000	3,000,000	18,000,000	—	18,000,000	—
Dynex	216,539,728	—	216,539,728	—	216,539,728	—
Guangzhou Times	—	18,000,000	18,000,000	—	18,000,000	—
	680,773,274	21,000,000	701,773,274	—	701,773,274	180,000,000
	848,477,212	55,749,830	904,227,042	—	904,227,042	195,061,710

XI. Notes to Key Items of the Company's Financial Statements (continued)

3. Long-term equity investments (continued)

2010

	Opening balance	Increase/ (decrease)	Closing balance	Impairment provision	Net value at end of year	Cash dividend
Unlisted investments:						
Equity method:						
Jointly controlled entity						
Shiling	97,091,427	25,600,375	122,691,802	—	122,691,802	5,500,000
Associate						
Zhuzhou Siemens	18,808,540	26,203,596	45,012,136	—	45,012,136	—
Cost method:						
Times Electronics	182,977,618	—	182,977,618	—	182,977,618	130,000,000
Ningbo Times	33,507,255	—	33,507,255	—	33,507,255	29,000,000
Times Information	29,000,000	—	29,000,000	—	29,000,000	—
Times USA	3,187,516	—	3,187,516	—	3,187,516	—
Times Equipment	34,561,157	—	34,561,157	—	34,561,157	—
Shenyang Times	3,000,000	—	3,000,000	—	3,000,000	—
Baoji Times	60,000,000	100,000,000	160,000,000	—	160,000,000	—
Kunming Electrics	—	3,000,000	3,000,000	—	3,000,000	—
Hangzhou Electrics	—	15,000,000	15,000,000	—	15,000,000	—
Dynex	216,540,385	(657)	216,539,728	—	216,539,728	—
	562,773,931	117,999,343	680,773,274	—	680,773,274	159,000,000
	678,673,898	169,803,314	848,477,212	—	848,477,212	164,500,000

XI. Notes to Key Items of the Company's Financial Statements (continued)

4. Revenue and cost of sales

Revenue is also turnover of the Company and represents the net invoice value of goods sold after deducting returns and trade discounts, the value of services rendered and the total rental income received.

Revenue is stated as follows:

	2011	2010
Revenue from principal operations	6,284,383,470	5,047,391,175
Other operating income	70,674,747	48,694,350
	6,355,058,217	5,096,085,525

Cost of sales is stated as follows:

	2011	2010
Cost of sales from principal operations	4,159,774,837	3,255,926,549
Other operating costs	56,242,953	25,948,093
	4,216,017,790	3,281,874,642

5. Investment income

	2011	2010
Income from non-listed investments:		
Long-term equity investment income under the equity method	49,811,540	57,303,971
Long-term equity investment income under the cost method	180,000,000	159,000,000
Others	1,278,967	579,609
	231,090,507	216,883,580

XI. Notes to Key Items of the Company's Financial Statements (continued)

6. Supplementary information to cash flow statement

	2011	2010
Adjustment of net profit to cash flows from operating activities:		
Net profit	1,230,740,732	872,542,863
Add: Provision for impairment of assets	81,068,240	148,858,400
Depreciation	84,614,801	82,935,372
Amortisation of intangible assets	9,934,686	19,555,995
(Gains)/losses from disposal of fixed assets, intangible assets and other long-term assets	(960,542)	30,030,775
Finance costs	33,274,313	9,077,613
Investment income	(231,090,507)	(216,883,580)
Increase in deferred tax assets	(15,937,117)	(23,540,919)
Increase in inventories	(94,445,773)	(653,522,833)
Increase in operating receivables	(573,345,930)	(274,092,631)
Increase in operating payables	434,460,760	526,984,283
Net cash flows from operating activities	958,313,663	521,945,338

XI. Notes to Key Items of the Company's Financial Statements (continued)

7. Major transactions between the company and its related parties

(1) Sales of goods to related parties

	2011 Amount	2010 Amount
Times Electronics	**82,146,847**	95,382,983
Shenyang Times	**18,663,682**	5,621,171
Dynex	**11,809,761**	17,600,684
Times USA	**10,714,235**	6,522,704
Baoji Times	**6,312,490**	—
Times Equipment	**6,100,543**	2,632,586
Ningbo Times	**1,493,018**	2,077,906
Kunming Electrics	**2,515,324**	—
Times Information	**33,781**	30,961
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	**2,585,787,603**	1,426,849,208
CSR Zhuzhou Electric Locomotive Co., Ltd.	**1,471,167,015**	1,871,390,427
CSR Qishuyan Locomotive Co., Ltd.	**359,975,601**	312,510,611
CSR Ziyang Locomotive Co., Ltd.	**39,142,666**	433,550
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**34,509,385**	27,285,493
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	**28,005,795**	17,652,650
Hunan CSR Times Electric Vehicle Co., Ltd.	**16,993,957**	21,378,001
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**16,266,906**	1,059,267
Shijiazhuang King Transportation Equipment Co., Ltd.	**10,989,573**	7,392,440
Beijing North Gofront Science Business Co., Ltd.	**4,901,940**	6,213,778
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	**2,897,844**	2,098,376
CSR Zhuzhou Electric Co., Ltd.	**1,483,156**	513
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	**729,516**	2,168,972
Zhuzhou Times New Material Technology Co., Ltd.	**698,200**	599,250
Beijing CSR Times Locomotive Rolling Stock Co., Ltd.	**260,600**	256,700
CSR Sifang Rolling Stock Co., Ltd.	**204,492**	—
Bombardier Sifang (Qingdao) Transportation Ltd.	**157,186**	416,342
Qingdao Sifang Coach Repair Co., Ltd.	**146,201**	355,921
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	**494,962**	11,333
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	**34,450**	—
Ziyang CSR Electric Locomotive Co., Ltd.	**—**	1,761
CSR Zhuzhou Electric Locomotive Works	**—**	6,038
CSR Luoyang Locomotive Works	**—**	27,692
Shiling	**—**	608,124
	4,714,636,729	3,828,585,442

XI. Notes to Key Items of the Company's Financial Statements (continued)

7. Major transactions between the company and its related parties (continued)

(2) Purchases of goods from related parties

	2011	2010
Times Equipment	87,117,098	49,522,380
Ningbo Times	71,788,808	65,155,574
Dynex	53,975,673	19,785,266
Times Electronics	36,836,705	47,765,232
Shenyang Times	34,640,761	—
Baoji Times	28,699,145	20,445,949
CSR Qishuyan Locomotive Co., Ltd.	224,358,974	128,205,128
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	81,437,101	104,408,331
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	74,012,087	86,701,211
CSR Zhuzhou Electric Co., Ltd,	57,208,352	28,492,307
CSR Zhuzhou Electric Locomotive Co., Ltd.	50,213,974	113,042,734
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	31,509,511	44,071,808
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	16,385,331	—
Zhuzhou Times New Material Technology Co., Ltd.	7,424,067	—
Hunan CSR Times Electric Vehicle Co., Ltd.	2,796,529	1,195,839
Shijiazhuang King Transportation Equipment Co., Ltd.	339,316	579,060
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	259,829	330,356
Zhuzhou Times Electric Insulation Co., Ltd.	44,273	347,564
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	—	688,727
Shiling	380,967,196	193,690,372
Changzhou Ruiyang Transmission Technology Co., Ltd.	34,866,325	26,155,214
	1,274,881,055	930,583,052

(3) Sales of electricity to related parties

	2011	2010
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	—	60,324
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	667,088	815,982
Zhuzhou Siemens	599,130	936,277
	1,266,218	1,812,583

XI. Notes to Key Items of the Company's Financial Statements (continued)

7. Major transactions between the company and its related parties (continued)

(4) Related party leases

Income from assets leased to related parties

	2011	2010
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**1,391,522**	2,164,503
Zhuzhou Siemens	**1,921,539**	3,586,874
	3,313,061	5,751,377

Expenses incurred from assets leased by related parties

	2011	2010
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**534,274**	117,851

(5) Technology services income from related parties

	2011	2010
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	**—**	1,500,000
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**—**	513,180
	—	2,013,180

Note: Transactions of goods and services with related parties:

The terms of the above sales transactions, purchase transactions and service provision transactions with related parties were agreed by both parties.

XI. Notes to Key Items of the Company's Financial Statements (continued)

8. Amounts due from and due to related parties

	31 December 2011	31 December 2010
Trade receivables:		
Ningbo Times	**113,221**	526,164
Times Electronics	**21,575,516**	8,055,661
Times Equipment	**3,585,998**	192,939
Baoji Times	**5,127,492**	684,671
Shenyang Times	**1,629,523**	6,576,766
Kunming Electrics	**2,942,929**	—
Dynex	**2,152,045**	1,479,796
Times USA	**6,877,584**	3,797,991
CSR Zhuzhou Electric Locomotive Co., Ltd.	**27,163,931**	96,758,912
Beijing North Gofront Science Business Co., Ltd.	**1,100,164**	506,303
CSR Zhuzhou Electric Co., Ltd.	**480,000**	—
CSR Ziyang Locomotive Co., Ltd.	**17,061,819**	—
Ziyang CSR Electric Locomotive Co., Ltd.	**—**	3,151
CSR Qishuyan Locomotive Co., Ltd.	**14,434,745**	23,092,702
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	**334,993,249**	39,985,982
CSR Sifang Rolling Stock Co., Ltd.	**192,630**	—
Qingdao Sifang Coach Repair Co., Ltd.	**47,710**	—
Bombardier Sifang (Qingdao) Transportation Ltd.	**60,000**	223,980
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	**10,982,291**	5,919,640
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	**366,753**	162,352
Shijiazhuang King Transportation Equipment Co., Ltd.	**2,958,585**	5,347,535
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**15,175,260**	253,637
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**148,000**	611,325
Qingdao Sifang Coach Repair Co., Ltd.	**—**	199,350
Hunan CSR Times Electric Vehicle Co., Ltd.	**29,800**	1,409,729
	469,199,245	195,788,586

XI. Notes to Key Items of the Company's Financial Statements (continued)

8. Amounts due from and due to related parties (continued)

	31 December 2011	31 December 2010
Bills receivable:		
Baoji Times	**490,000**	—
CSR Zhuzhou Electric Locomotive Co., Ltd.	**201,000,000**	402,000,000
CSR Qishuyan Locomotive Co., Ltd.	**—**	2,500,000
CSR Ziyang Locomotive Co., Ltd.	**4,550,000**	1,000,000
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	**380,000,000**	93,000,000
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	**1,300,000**	20,700,000
Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.	**2,500,000**	—
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	**960,000**	500,000
CSR Luoyang Locomotive Co., Ltd.	**1,200,000**	3,380,000
Shijiazhuang King Transportation Equipment Co., Ltd.	**4,000,000**	—
Hunan CSR Times Electric Vehicle Co., Ltd.	**600,000**	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**187,057**	1,983,205
	596,787,057	525,063,205

XI. Notes to Key Items of the Company's Financial Statements (continued)

8. Amounts due from and due to related parties (continued)

	31 December 2011	31 December 2010
Prepayments:		
Times Equipment	—	3,778,860
Baoji Times	5,249,439	—
Shenyang Times	—	250,000
Dynex	15,123,309	16,139,020
Kunming Electrics	—	10,000,000
CSR Corporation Limited	118,100	84,300
CSR Qishuyan Locomotive Co., Ltd.	12,000	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	—	4,756
	20,502,848	30,256,936

	31 December 2011	31 December 2010
Other receivables:		
Ningbo Times	99,741,660	99,741,660
Times Information	35,551,299	25,551,299
Baoji Times	34,860,000	—
Shenyang Times	53,130,000	40,380,000
Kunming Electrics	30,500,000	—
Times USA	465,158	—
CSR Zhuzhou Electric Locomotive Co., Ltd.	1,120	—
CSR Qishuyan Locomotive Co., Ltd.	50,000	50,000
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	20,000	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	3,191,424	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	80,087	—
CSR Zhuzhou Electric Locomotive Works	1,500	1,500
Zhuzhou Siemens	25,349	47,409
	257,617,597	165,771,868

XI. Notes to Key Items of the Company's Financial Statements (continued)

8. Amounts due from and due to related parties (continued)

	31 December 2011	31 December 2010
Trade payables:		
Ningbo Times	**22,444,672**	26,101,674
Times Electronics	**308,269**	—
Times Equipment	**37,330,635**	44,981,635
Shenyang Times	**5,441,679**	—
Dynex	**5,676,757**	203,108
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	**633,459**	3,708,593
CSR Zhuzhou Electric Co., Ltd.	**6,880,497**	6,478,564
Shijiazhuang King Transportation Equipment Co., Ltd.	**391,188**	34,188
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	**729,009**	—
Zhuzhou Times New Material Technology Co., Ltd.	**—**	160,262
Zhuzhou Times Electric Insulation Co., Ltd.	**—**	13,213
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	**11,655,442**	9,151,929
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	**1,671,030**	5,078,336
Hunan CSR Times Electric Vehicle Co., Ltd.	**—**	132,066
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	**798,000**	—
Shiling	**18,214,573**	80,529,351
Changzhou Ruiyang Transmission Technology Co., Ltd.	**2,803,350**	2,802,870
	114,978,560	179,375,789

XI. Notes to Key Items of the Company's Financial Statements (continued)

8. Amounts due from and due to related parties (continued)

	31 December 2011	31 December 2010
Bills payable:		
Ningbo Times	5,350,000	—
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	4,257,700	—
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	7,022,300	—
Shiling	58,900,000	—
	75,530,000	—

	31 December 2011	31 December 2010
Receipts in advance:		
Times Equipment	—	3,699
Beijing North Gofront Science Business Co., Ltd.	85,706	—
CSR Zhuzhou Electric Co., Ltd.	145,200	—
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	—	33,919,600
	230,906	33,923,299

	31 December 2011	31 December 2010
Other payables:		
Times Equipment	6,086,567	2,827,097
Dynex	6,346,848	—
Kunming Electrics	773,519	773,519
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	4,850,000	
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	—	23,292
	18,056,934	3,623,908

The Company's bills receivable from and bills payable to related parties are non-interest bearing, unsecured and have fixed terms of repayment. Other amounts due from and due to related parties are non-interest bearing and unsecured. The repayment period of trading amounts is determined by the provisions of the trading terms, whereas non-trading amounts are not subject to any fixed repayment period.

Glossary

"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 80% 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
"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 (CSR Corporation Limited), formerly known as (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 55.06% 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"	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 97.2% by CSR
"CSR Zhuzhou"	南車株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Co., Ltd.), held as to100% by CSR; one of the Promoters
"Director(s)"	the director(s) 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
"Guangzhou Times"	廣州南車時代電氣技術有限公司 (Guangzhou CSR Times Electric Technology Co., Ltd.), a 60% owned subsidiary of the Company
"Hangzhou Electric"	杭州南車電氣設備有限公司 (Hangzhou CSR Electric Equipment Co., Ltd.), a 60% owned subsidiary of the Company
"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 Electric"	昆明南車電氣設備有限公司 (Kunming CSR Electric Equipment Co., Ltd.), a wholly-owned subsidiary of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Ningbo Times"	寧波南車時代傳感技術有限公司 (Ningbo CSR Times Sensor Technology Co., 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
"PRC Accounting Standards"	Accounting Standards for Business Enterprises and relevant regulations issued by the PRC Ministry of Finance
"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 (CSRG Qishuyan Locomotive & Rolling Stock Works), a wholly-owned subsidiary of CSRG and one of the Promoters
"Shenyang Times"	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 Co., 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 2011
"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責任公司 (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
"Zhuzhou Siemens"	株洲西門子牽引設備有限公司 (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	**Authorised representatives**	Ding Rongjun Tang Tuong Hock, Gabriel
3	**Company secretary**	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**	Minter Ellison Grandall Legal Group
7	**Auditors**	Ernst & Young Hua Ming Level 16, Ernst & Young Tower Oriental Plaza, No. 1 East Chang An Avenue Dong Cheng District, Beijing China 100738