



中国南车

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 **2012**

The background of the cover features a high-speed train in motion, with a blurred blue and white color scheme. The train is positioned over a stylized globe of the Earth, which is also rendered in shades of blue and white. A network of white lines, resembling a circuit board or a railway track, is overlaid on the globe. The overall aesthetic is modern and technological.

*New CSR.  
New Creation*



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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 the Chinese version and the English version, the Chinese version shall prevail.

# Financial Highlights

## CONSOLIDATED INCOME STATEMENT HIGHLIGHTS

	Year Ended 31 December				
	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Revenue	<b>7,216,498</b>	7,124,775	5,886,854	3,367,726	2,154,840
Operating profit	<b>1,279,375</b>	1,270,105	958,659	564,292	459,316
Total profit	<b>1,400,629</b>	1,380,922	987,159	619,430	496,842
Net profit	<b>1,222,510</b>	1,187,036	852,062	529,594	423,337
Net profit attributable to shareholders of the Parent	<b>1,221,110</b>	1,184,443	850,528	526,087	422,300
Minority interests	<b>1,400</b>	2,593	1,534	3,507	1,037
Basic earnings per share (RMB Yuan/share)	<b>RMB1.13</b>	RMB1.09	RMB0.78	RMB0.49	RMB0.39

## CONSOLIDATED BALANCE SHEET HIGHLIGHTS

	As at 31 December				
	2012 RMB'000	2011 RMB'000	2010 RMB'000	2009 RMB'000	2008 RMB'000
Total assets	<b>9,649,711</b>	8,654,179	7,088,275	5,459,557	4,246,628
Total liabilities	<b>3,336,749</b>	3,216,495	2,518,512	1,512,301	745,527
Total shareholders' equity	<b>6,312,962</b>	5,437,684	4,569,763	3,947,256	3,501,101

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 2011 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 2008 to 2010 in accordance with "Accounting Standards for Business Enterprises".

# Chairman's Report

## Dear Shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31 December 2012. 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 2012 amounted to RMB7,216.5 million (2011: RMB7,124.8 million), representing an increase of 1.3% year-on-year. Net profit attributable to shareholders of the parent amounted to RMB1,221.1 million (2011: RMB1,184.4 million), representing an increase of 3.1% year-on-year. Basic earnings per share amounted to RMB1.13 (2011: RMB1.09), representing an increase of 3.7% year-on-year.

## BUSINESS REVIEW

In 2012, faced with the impact of the changing macroeconomic situation and adjustment to the development of the railway industry, the Group adhered to its "efficient organization" and "global operation" strategies, and focused on the R&D of new products and market positioning. The industrial sectors of urban railway and metro, railway engineering machinery, communication and signalling, and high-end parts and components delivered satisfactory results. Despite a decrease in the businesses of locomotives and electric multiple units used for mainline railway by nearly 20% year-on-year, the overall businesses and profits of the Company realized an ultimate increase year-on-year which was not easy.

Meanwhile, all industrial sectors respectively made new breakthroughs in technology, products and markets, which mainly included:

In respect of the traction systems for electric multiple units, the Company won the bids for the Guangzhou-Shenzhen-Hong Kong High-speed Railway project and the CRH6-200 inter-city electric multiple units project, completed the first article inspection of its own inter-city electric multiple units project;

In respect of the traction systems for locomotives, the Company received locomotives purchase orders from South Africa, completed trial production and commenced mass production of eight-axle locomotives for the Ministry of Railways and eight-axle locomotives for China Shenhua. The Company also completed pre-application examination and commenced mass production of HXD1C plateau locomotives, and commenced trial operation of its first 4,400hp diesel locomotive;

In respect of urban railway and metro, the Company possessed an obvious advantage and obtained a more satisfactory market share in the domestic tenders of traction systems during the year, expanding the influence of its own brand in the market. Particularly, in respect of Changsha Metro Line 2, the Company realized integrated supply of three critical systems — traction, signalling and braking, for the first time, creating new room for future development of the urban railway and metro sector;

In respect of railway engineering machinery, orders increased rapidly, while market position was further improved in respect of safety monitoring products. The sector of parts and components achieved stable development.

During the past year, the Company also emphasized on performance management, widely promoted and improved its information system platform.

### OUTLOOK

Entering 2013, affected by the transition of the Chinese government leadership and railway marketization, railway orders were delayed in light of uncertainties in policies and market.

However, for a long period in future, with continuous progress in the construction of railway and urban railway in the PRC and the development of the PRC economy, transportation demand for mainline and urban railway will still be strong. Railway transport, being a mode of transport with low energy consumption and low emissions, will be a better solution for the various problems facing the future development of China.

We believe the Company will be able to capture more opportunities and meet more challenges in future. The Company will offer quality service to national railway and urban railway transit sectors as well as other sectors as the Company always does, and the Company will strengthen its efforts in expanding overseas markets.

In the fields of locomotives and electric multiple units, the Company will focus on the promotion of the products with its own systems for eight-axle 9,600kW freight locomotive, HXD1C plateau locomotive, 160km/h passenger locomotive, HXN5 diesel locomotive, 4,400hp diesel locomotive and Guangzhou-Shenzhen-Hong Kong High-speed Railway electric multiple units. The Company will also refine and expand its overhaul business.

In the field of urban railway and metro, the Company will seize business opportunities in the market brought by government policies, continue to strengthen the continuous R&D and brand promotion of self-developed system, and complete on-time delivery of orders on hand while maintaining quality standards.

The Company will also increase its efforts of integration in the railway engineering machinery sector to realize the scale expansion of this sector, capture new opportunities in the railway signalling market, develop and upgrade new products of the signalling system, and increase the market expansion efforts for extended sectors.

In the fields of parts and components, the Company will focus equally on R&D and market expansion, accelerate the batch application of self-developed IGBT components, vigorously expand the market application of new components, and strengthen its key component sector including laminated busbars, sensors and PCB.

Looking ahead, the Group is confident in endeavouring to expand its competitive edge in all industrial sectors while consolidating its status in the industry and ensuring the healthy and stable development of the Group, thereby creating greater value for its shareholders.

#### **Ding Rongjun**

*Chairman of the Board*

Changsha, Hunan, PRC

28 March 2013

# Management Discussion and Analysis



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

## Revenue

	2012 (RMB million)	2011 (RMB million)
Train power converters, auxiliary power supply equipment and control systems	4,740.5	5,246.7
Including:		
Locomotives	1,584.1	2,214.3
Electric Multiple Units	2,228.7	2,537.7
Metropolitan rail transportation equipment	927.7	494.7
Train operation safety equipment	613.2	439.9
Railway maintenance vehicles related products	976.2	597.2
<b>Train-borne electrical systems</b>	<b>6,329.9</b>	<b>6,283.8</b>
Power semiconductor components	489.5	498.7
Sensors and related products	102.0	107.7
Other products	295.1	234.6
<b>Electric components</b>	<b>886.6</b>	<b>841.0</b>
<b>Total revenue</b>	<b>7,216.5</b>	<b>7,124.8</b>

The Group's revenue increased by RMB91.7 million or 1.3% from RMB7,124.8 million for the year ended 31 December 2011 to RMB7,216.5 million for the year ended 31 December 2012. In 2012, the Group recorded revenue of RMB295.1 million from other products, which mainly comprised of revenue from products such as busbar and PCB.

## Management Discussion and Analysis

In 2012, the revenue from locomotives and electric multiple units was decreased, but growth was seen in revenue from most of various product categories of the Group. Among these, the Group recorded the strongest growth in revenue from metropolitan rail transportation equipment with an increase of RMB433.0 million. Such increase was mainly due to the delivery of products for Guangzhou Metro and Beijing Metro. The second strongest growth in revenue was recorded in railway maintenance vehicles related products with an increase of RMB379.0 million, mainly due to the delivery of tamping machine products.

### Cost of sales

The Group's cost of sales increased by 4.0% from RMB4,598.7 million for the year ended 31 December 2011 to RMB4,781.0 million for the year ended 31 December 2012. The increase in the cost of sales was mainly due to the combined effects of the growth in the Group's turnover and the change of sales mix.

### Gross profit

The Group's gross profit decreased by 3.6% from RMB2,526.1 million for the year ended 31 December 2011 to RMB2,435.5 million for the year ended 31 December 2012. The Group's gross profit margin decreased from 35.5% for the year ended 31 December 2011 to 33.7% for the year ended 31 December 2012. The change in gross profit margin was mainly due to the change of sales mix.

### Selling expenses

Selling expenses of the Group decreased from RMB347.4 million for the year ended 31 December 2011 (representing 4.9% of the Group's revenue for the whole year) to RMB331.2 million for the year ended 31 December 2012 (representing 4.6% of the Group's revenue for the whole year). As the Group strictly controlled the expenses in 2012, selling expenses decreased by 4.7% over last year. Meanwhile, the percentage of the Group's selling expenses as a ratio of the annual revenue decreased by 0.3 percentage point as compared to last year.

### Administrative expenses

The Group's administrative expenses increased by 5.1% from RMB817.7 million for the year ended 31 December 2011 (representing 11.5% of the Group's revenue for the whole year) to RMB859.2 million for the year ended 31 December 2012 (representing 11.9% 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 2012.

### Finance costs

The Group's finance costs decreased from RMB27.3 million for the year ended 31 December 2011 to negative RMB9.3 million for the year ended 31 December 2012. The decrease in finance costs was mainly due to the increase in exchange gains and the decrease of interest expense during the year.



# Management Discussion and Analysis

## Asset impairment losses

The Group's asset impairment losses decreased by 83.7% from RMB68.8 million for the year ended 31 December 2011 to RMB11.2 million for the year ended 31 December 2012. The Group tidied up the positions of its assets thoroughly in 2011 and 2012, and made reasonable impairment provisions for assets with signs of impairment. The Group made an impairment provision of RMB45.2 million for inventories with signs of impairment in 2011, and an impairment provision of RMB5.8 million for inventories with signs of impairment in 2012.

## Non-operating income

The Group's non-operating income increased by 9.1% from RMB112.2 million for the year ended 31 December 2011 to RMB122.4 million for the year ended 31 December 2012. 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 7.7% from RMB1.3 million for the year ended 31 December 2011 to RMB1.2 million for the year ended 31 December 2012. 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 1.4% from RMB1,380.9 million for the year ended 31 December 2011 to RMB1,400.6 million for the year ended 31 December 2012. The increase in total profit was mainly due to the increase in revenue. The Group's profit margins for the years ended 31 December 2011 and 31 December 2012 were 19.38% and 19.41% respectively.

## Income tax expense

The Group's income tax expense decreased by 8.1% from RMB193.9 million for the year ended 31 December 2011 to RMB178.1 million for the year ended 31 December 2012.

The Company, Ningbo Times, Times Electronics and Times Equipment 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%.

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 2011 and 31 December 2012 were 14.0% and 12.7% respectively.

# Management Discussion and Analysis

## Net profit attributable to shareholders of the Parent

Net profit attributable to shareholders of the Parent increased by 3.1% from RMB1,184.4 million for the year ended 31 December 2011 to RMB1,221.1 million for the year ended 31 December 2012. The increase in the net profit attributable to shareholders of the Parent was mainly due to increase in revenue.

## Minority interests

Minority interests decreased by 46.2% from RMB2.6 million for the year ended 31 December 2011 to RMB1.4 million for the year ended 31 December 2012. The decrease in minority interests was mainly due to the decrease in net profit from the Group's non-wholly owned subsidiaries as compared to last year.

## Earnings per share

Earnings per share increased by RMB0.04 from RMB1.09 for the year ended 31 December 2011 to RMB1.13 for the year ended 31 December 2012.

## 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 RMB243.6 million for the year.

### Net cash flows from operating activities

The Group's net cash inflows from operating activities increased by 0.4% from RMB1,241.8 million for the year ended 31 December 2011 to RMB1,246.7 million for the year ended 31 December 2012, which was mainly due to the strengthening of fund management by the Group.

### Net cash flows from investing activities

For the year ended 31 December 2012, the Group's net cash inflows from investing activities were approximately RMB16.0 million. Cash inflow items in investing activities mainly represented the cash received from returns on investments of RMB62.4 million.

### Net cash flows used in financing activities

For the year ended 31 December 2012, the Group's net cash flows used in financing activities amounted to approximately RMB1,019.1 million. Cash outflow items in financing activities mainly represented the cash payment of dividends and interests of RMB397.1 million and the cash payment for the repayment of short-term bonds and borrowing of RMB500.0 million and RMB140.0 million respectively.

# Management Discussion and Analysis

## 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:

	<b>31 December 2012 (RMB million)</b>	31 December 2011 (RMB million)
Contracted but not provided:		
Purchase of fixed assets	<b>166.3</b>	142.0
Purchase of intangible assets	<b>23.5</b>	10.1
Investment commitments	<b>16.6</b>	49.9
Sub-total	<b>206.4</b>	202.0
Approved but not contracted:		
Purchase of fixed assets	<b>698.0</b>	820.8
Purchase of intangible assets	<b>0.5</b>	11.1
Sub-total	<b>698.5</b>	831.9
Total	<b>904.9</b>	1,033.9

## Indebtedness

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

	<b>31 December 2012 (RMB million)</b>	31 December 2011 (RMB million)
Short-term borrowings	—	139.0
Short-term bonds payable	—	500.0
Long-term borrowings (inclusive of amounts due within one year)	<b>69.7</b>	60.3
Total	<b>69.7</b>	699.3

# Management Discussion and Analysis

## Gearing ratio

The Group monitors capital management by 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 10.4% as at 31 December 2011 and 6.4% as at 31 December 2012.

## 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 52, 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 president of the Company from September 2005 to December 2007, deputy general manager of CSR ZELRI from December 2007 to December 2008, 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, 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, from Changsha Railway Institute with a master degree in Traffic Information and Control in 1998, 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 the Chairman of the Board since December 2007.



**Deng Huijin**, aged 56, 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 46, 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, and 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 served as chief marketing officer of the Company from September 2005 to December 2007, 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 an executive Director of the Company since April 2010.

## Directors, Supervisors and Senior Management



**Yan Wu**, aged 46, a non-executive Director, a vice general manager and the 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 was appointed as the secretary to the Board of the Company in December 2007 and the vice general manager of the Company in June 2012. He has been a non-executive Director of the Company since December 2010.



**Ma Yunkun**, aged 59, 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 72, 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. He 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.

## Directors, Supervisors and Senior Management



**Chan Kam Wing, Clement**, aged 55, 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 and 2013. 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 66, an independent non-executive Director. since 1987, Mr. Pao has been appointed as the Independent Non Executive Director of various listed companies of Hong Kong Exchange, Mr. Pao has rich experiences in corporate governance. 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 Hong Kong government 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 42, 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 the president of Zhongfa International Appraisal Co., Ltd.. She has been the vice chairman of the board of Beijing Zhuoxindahua Appraisal Co., Ltd. since September 2012. 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.

## Directors, Supervisors and Senior Management

### Supervisors



**He Wencheng**, aged 55, a supervisor and the Chairman of the Supervisory Committee. Mr. He is a senior accountant. Mr. He joined CSR ZELRI in September 2009 as 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 chief accountant of Zhuzhou Electric Locomotive Works (株州電力機車廠) from December 1977 to March 2007. He served as the chief accountant of Qishuyan Works from March 2007 to January 2008 and 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 49, 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 general manager of the manufacturing centre of CSR ZELRI and deputy general manager of Times Electronics, chief production officer and director of the production department of Times Electronics. Mr. Pang served as assistant to director and deputy general manager of the marketing management department of marketing centre of the Company from January 2007 to January 2009, director of the marketing management department of the Company from January to December 2009, and director of the operation management department of the Company from January 2010 to December 2011. Mr. Pang has been 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 49, 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 chief technology officer of Shanghai branch of the technology centre of the Company from September 2005 to December 2006, and has been chief scientist of the Company since January 2007 and chief technical expert of CSR since 2011. 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.



## Directors, Supervisors and Senior Management



**Geng Jianxin**, aged 59, 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 46, an executive Director and the general manager. Biographical details of Mr Li are set out above.



**Du Jinsong**, aged 47, the Party secretary and a vice 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 served as deputy general manager of the marketing centre of CSR ZELRI from March 2002 to March 2004, deputy general manager and secretary of Party general branch of power electronic business unit of CSR ZELRI from March 2004 to December 2004, 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, 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 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 been the Party secretary and a vice general manager since January 2012.

## Directors, Supervisors and Senior Management



**Liu Ke'an**, aged 42, a vice general manager and the chief engineer. 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 director of the drive technology department of technology centre of the Company, 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 and chairman of Hunan CSR Weblec Railway Transportation Technology Co., Ltd. He served as an employees' representative supervisor of the Company from December 2007 to January 2010 and chief technology officer of the Company from January 2010 to June 2012. He graduated from the Department of Electrical Engineering of Tongji University with a bachelor degree in Engineering in 1994. Mr. Liu has been a vice general manager and the chief engineer of the Company since June 2012.



**Chen Jian**, aged 41, a vice general manager. 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 of CSR ZELRI 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 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. He was chief marketing officer of the Company from January 2010 to June 2012. 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 a vice general manager of the Company since June 2012.



**Liu Daxi**, aged 48, a vice general manager. 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 and chief production officer of the Company from January 2010 to June 2012. 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. He undertook a programme in leadership in manufacturing technology at The George Washington University from November 2003 to December 2003 and studied the programme for chief operation officer at Fudan University from September 2006 to March 2007. Mr. Liu has been a vice general manager of the Company since June 2012.

## Directors, Supervisors and Senior Management



**Xiao Shaoping**, aged 41, a vice general manager and the chief accountant. Mr. Xiao holds a doctorate degree in management science and engineering, and is 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 and the chief financial officer of the Company from January 2010 to June 2012. 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 a vice general manager and the chief accountant of the Company since June 2012.



**Tan Yongneng**, aged 43, the chief administration officer and the 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 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 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.

## Directors, Supervisors and Senior Management



**Niu Jie**, aged 45, a vice general manager. Mr. Niu is an engineer. He joined CSR ZELRI in October 1994 and served as director of the production department of the PCB plant, sales director of the production and operation division and vice general manager of the marketing centre of CSR ZELRI. He was deputy general manager of the marketing centre of the Company from September 2005 to December 2006 and general manager of the locomotives business department of the marketing centre of the Company from January 2007 to December 2008. Mr. Niu was a technician and office director of the loading and unloading machinery plant of Lanzhou Railway Bureau from February 1988 to October 1994. Mr. Niu graduated from Central South University in June 2003 with an undergraduate certificate of graduation in machinery design, manufacturing and automation. He was deputy chief economist of the Company from January 2010 to June 2012. Mr. Niu has been the general manager of the locomotives business department of the Company since January 2009 and a vice general manager of the Company since June 2012.

**Yan Wu**, aged 46, a non-executive Director, a vice general manager and the secretary to the Board. Biographical details of Mr. Yan are set out above.



**Tang Tuong Hock, Gabriel**, aged 60, the 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 the company secretary and the 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. On 1 April 2012, the Code on Corporate Governance Practices ("Previous CG Code") as set out in Appendix 14 of the Listing Rules was amended and renamed as New CG Code. The Company has adopted all code provisions of the New CG Code as the Company's corporate governance code to replace the Previous CG Code with effect from 1 April 2012.

During the reporting period ended 31 December 2012, the Company has complied with all the code provisions of the Previous CG Code and the New 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 with 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 general meetings, 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.

## II Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (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, the Board of Directors 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.

The number of members of the Board of Directors 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 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, family or other material relevant relationship.

The Directors have distinguished themselves in their field of expertise, and have exhibited high standards of personal and professional ethics and integrity. All the Directors give sufficient time and attention to the Company's affairs. The Board believes that the ratio of executive Directors to non-executive Directors is reasonable and adequate to provide checks and balances that safeguard the interest of the shareholders and the Company as a whole.

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.

# Corporate Governance Report

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

During the reporting period, the Company held seven Board meetings and one annual general meeting.

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

Name	Title	Attendances at Board meetings	Attendance at the Annual General Meeting	Remarks
Ding Rongjun	Chairman of the Board and Executive Director	7/7	1/1	
Deng Huijin	Vice Chairman of the Board and Non-Executive Director	6/7	1/1	Mr. Deng appointed Mr. Ding Rongjun to attend the fifth meeting of the third session of the Board held on 29 March 2012 on his behalf
Li Donglin	Executive Director	7/7	1/1	
Yan Wu	Non-Executive Director	7/7	1/1	
Ma Yunkun	Non-Executive Director	7/7	1/1	
Gao Yucai	Independent Non-Executive Director	7/7	1/1	
Chan Kam Wing, Clement	Independent Non-Executive Director	7/7	1/1	
Pao Ping Wing	Independent Non-Executive Director	7/7	1/1	
Liu Chunru	Independent Non-Executive Director	7/7	1/1	

### 3. Directors' Continuous Training and Development Program

Pursuant to the New CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This can ensure that they make contributions to the Board with sufficient information and satisfy what is practically required.

All Directors of the Company received regular briefings and updates on the Group's business, operations, risk management and corporate governance matters, and were provided with materials on new laws and regulations or changes to important laws and regulations applicable to the Group. All Directors are requested to provide the Company with their respective training records pursuant to the New CG Code.

During the reporting period, the Company provided the Directors with appropriate continuous training and professional development courses, including 1) assigned the Company's counsel to organize trainings on directors' duties and corporate governance; 2) provided the Directors with "A Guide on Directors' Duties" published by the Companies Registry of the Hong Kong, "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" published by the Hong Kong Institute of Directors, and abstract information relating to the amendments to the Listing Rules as well as the New CG Code prepared by the Company's counsel; 3) provided the Directors with "New Laws regarding Inside Information Disclosure" prepared by the Company's counsel. All Directors have attended relevant trainings, and have noted and studied the above mentioned documents. The Company has received from each of the Directors the confirmations on attending continuous professional training.

In addition to as aforesaid, Mr. Pao Ping Wing, an independent non-executive Director, attended trainings relating to directors' responsibilities and corporate governance code arranged by other organizers and provided by lawyers and accountants, and Mr. Chan Kam Wing, Clement, an independent non-executive Director, attended trainings relating to new accounting standards and the revised Listing Rules arranged by other organizers.

### 4. Operation of the Board

The Board of Directors is responsible to the general meetings in relation to the leadership and monitoring of the Company. The Board is responsible for formulating the Group's overall development strategies, reviewing and monitoring the Group's business performance, and preparing and reviewing its financial statements. The Board delegates the day-to-day management, administration and operation of the Group to the management. The delegated functions are reviewed by the Board periodically to ensure that they accommodate the needs of the Group.

The Board convened regular and extraordinary 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 at the Company's premises.



## Corporate Governance Report

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

- (1) to convene general meetings and to report on its work to the general meetings;
- (2) to implement the resolutions of the general meetings;
- (3) to make decisions on business plans and investment plans of the Company;
- (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.

The Company has taken out appropriate liability insurance policies for Directors, supervisors and senior management members, for the purpose of covering any of their liability arising out of the Group's corporate activities.

## 5. Committees of the Board

The Company has established separate strategy, audit, risk management, remuneration and nomination committees. The function of each committee is to study specific 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 held one meeting during the reporting period, at which all the members of the strategy committee attended. 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. Mr. Chan has appropriate professional qualifications and related financial management expertise.

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. Terms of reference of the audit committee are posted on the Company's website and the HKExnews website.

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.

# Corporate Governance Report

The following table shows the record of attendance of the audit committee members:

Audit Committee member	Attendance rate for meetings held during the year ended 31 December 2012
Chan Kam Wing, Clement	4/4
Pao Ping Wing	4/4
Gao Yucai	4/4
Liu Chunru	4/4
Ma Yunkun	4/4

The Company has established an audit and risk management department with relatively independent internal audit functions. The audit and risk management department is under the 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 two non-executive Directors and one independent non-executive Director. 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 establish, assess and revise risk management strategies.

The risk management committee held one meeting during the reporting period, at which Messrs. Chan Kam Wing and Yan Wu attended and Mr. Yan Wu was delegated by Mr. Deng Huijin to vote. At such meeting, the committee mainly discussed issues concerning corporate governance report and internal control.

## **d. 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, and was resolved to be separated and renamed as nomination committee and remuneration committee at the fifth meeting of the third session of the Board held on 29 March 2012. It currently consists of three independent non-executive Directors. The committee members were Messrs. Pao Ping Wing, Gao Yucai and Ms. Liu Chunru. Mr. Pao Ping Wing is the chairman of the remuneration committee.

The main responsibilities of the remuneration committee are to consider the remuneration and benefits paid to Directors and senior management members, and to advise the Board. Terms of reference of the remuneration committee are posted on the Company's website and the HKExnews website.

The remuneration committee has adopted the manner set out under the code provision B.1.2(c)(ii) to recommend to the Board the remuneration and benefits paid to individual executive Director and senior management member.

Details of the remunerations of senior management members are set out in note X.5 to the financial statements.

## Corporate Governance Report

The remuneration committee held two meetings during the reporting period. Remuneration of the Directors and the senior management and other incentives scheme were the main issues discussed at such meetings. The following table shows the record of attendance of the remuneration committee members:

Remuneration Committee member	Attendance rate for meetings held during the year ended 31 December 2012
Pao Ping Wing	2/2
Gao Yucai	2/2
Liu Chunru	2/2

### **e. Nomination committee**

The nomination and remuneration committee was separated and changed its name to nomination committee and remuneration committee respectively as resolved by the Board on 29 March 2012. The nomination committee's members are Messrs. Ding Rongjun, Pao Ping Wing and Ms. Liu Chunru. Mr. Ding Rongjun is the nomination committee's chairman.

The main responsibilities of the nomination committee are to be responsible for nominating and appraisal of Directors and senior management members and to make recommendations to the Board about any related adjustments. Terms of reference of the nomination committee are posted on the Company's website and the HKExnews website.

The procedures for shareholders of the Company to propose a candidate for election as a Director is available on the Company's website.

During the reporting period, the Company held two nomination committee meetings. The changes of the senior management were the main issues discussed at such meetings. The following table shows the record of attendance of the nomination committee members:

Nomination Committee member	Attendance rate for meetings held during the year ended 31 December 2012
Ding Rongjun	2/2
Pao Ping Wing	2/2
Liu Chunru	2/2

# Corporate Governance Report

## **f. Corporate governance functions**

The Board is responsible for the following corporate governance functions:

- i. to draw up and review the Company's corporate governance policy and practices and make recommendations;
- ii. to review and monitor the training and professional development on an ongoing basis of the Directors and senior management members;
- iii. to review and monitor the Company's policies and practices on compliance, laws and regulations;
- iv. to draw up, review and monitor any code of conduct and compliance manual, where appropriate, applicable to employees and Directors; and
- v. to review the Company's compliance with the previous CG Code and the New CG Code and the disclosure of corporate governance report as set out in the annual report of the Company.

## **IV Chairman and General Manager**

The offices of the Chairman and the general manager of the Company are held by different persons. Mr. Ding Rongjun is the chairman of the Company and Mr. Li Donglin is the general manager of the Company. 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 convene and preside at the shareholders' general meetings, and to preside at 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 establish plan for establishment of the Company's internal management structure;
- (4) to establish the Company's basic management system;
- (5) to formulate the basic rules and regulations of the Company;
- (6) to propose the appointment or removal of vice 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 draft plan for the wages, benefits, incentives and punishments of employees, to determine the appointment and removal, promotion and demotion, salary increment and decrement, appointment, employment, 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 expiry of terms of office, 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 general meeting and at least seven days prior to the holding of the general meeting.

## VII Remuneration of the Auditors

For the year ended 31 December 2012, the Company appointed Ernst & Young Hua Ming LLP (the "Ernst & Young Hua Ming") to provide annual results auditing and interim results agreed upon procedures services to the Company. Ernst & Young Hua Ming also provided agreed upon procedure services on quarterly continuing connected transactions for the Company.

# Corporate Governance Report

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” published by the 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 prepared in accordance with PRC Accounting Standards.

Details of the external auditors’ remuneration of the Company are as follows:

	For the year ended 31 December 2012 (RMB’000)	
Service provided:	Ernst & Young	Hua Ming
Annual results auditing service		2,450
Interim results agreed upon procedures service		350
Quarterly agreed upon procedures service for continuing connected transactions		150
Medium-term notes service		50

Note: The above auditing and agreed upon procedures services included advance for 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 2012.

The Directors also confirm that there were no material unexpected events or conditions which may materially affect the ability of the Company to carry on as a going-concern.

## IX Company secretary

Mr. Tang Tuong Hock, Gabriel was appointed as the company secretary of the Company in July 2006. Biographical details of Mr. Tang are set out under the section headed “Directors, Supervisors and Senior Management”.

According to Rule 3.29 of the Listing Rules, Mr. Tang has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2012.

## X Constitution

During the year, no material change was made to the Articles.

## XI 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 management department carries 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 makes up internal control deficiencies and control risks.

The Company continued to strengthen internal control systems since its establishment and further enhanced its control capability through reinforcing internal monitor foundation and deepening internal control and risk management works. At present, the Company has established sound internal control systems and business procedures management systems, which improved the control capability at the head office and optimized the control over business risk points. On this basis, the Company implemented annual internal control self-evaluation, internal control weakness rectification, risk database update, risk response and risk precaution works across the organization, thereby developing a constant mechanism for internal control and comprehensive risk management. It then enables the Company to constantly maintain and improve internal control and to ensure the Company to respond to changes in business and external environment from financial, operational and risk management perspectives, so as to protect the Company's assets safety and interests of shareholders.

## XII Shareholders' rights

### 1. Convening extraordinary general meetings

In accordance with the Articles and rules and procedures for general meetings, shareholder(s) who severally or jointly holding 10% or more of the Company's outstanding shares carrying voting rights may request to convene an extraordinary general meeting in writing. Such meeting shall be held within 2 months after the deposit of such requisition. If within 20 days after the Board has received such written requisition from those shareholder(s) severally or jointly holding 10% or more of the Company's shares carrying voting rights to convene the extraordinary general meeting, the Board fails to give a notice to convene such meeting, such shareholder(s) himself (themselves) may do so within 4 months from the date the Board has received such requisition.



# Corporate Governance Report

## 2. Putting enquires to the Board

To ensure effective communication between the Board and the shareholders, the Company has adopted a shareholders' communication policy (the "Policy") on 29 March 2012. Under the Policy, the Company's information shall be communicated to the Shareholders mainly through general meetings, including annual general meetings, the Company's financial reports (interim reports and annual reports), and its corporate communications posted on the Company's website and the HKExnews website.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available. Any such questions shall be first directed to the company secretary at the Company's principal place of business in Hong Kong or the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

## 3. Putting proposals to general meetings

Shareholder(s) who severally or jointly holding 3% or more of the Company's total shares carrying voting rights is (are) entitled to put their proposals to an annual general meeting, and Shareholder(s) who severally or jointly holding 10% or more of the Company's total shares carrying voting rights can make requests in writing to the Board to convene an extraordinary general meeting and submit their proposals. The Company shall include the matters in the proposals which are within the scope of the terms of reference of the general meetings in the agenda of the meeting.

## XIII 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 to provide a platform for shareholders to express their opinions and to communicate with the Board; (3) holding press conference and investors conferences from time to time; (4) organising the management to conduct overseas roadshows; (5) publishing corporate communications such as announcements and circulars on the Company's website and HKEXnews website; and (6) responding to the queries from shareholders and investors in a timely manner.

The Company will continue to strive to enhance its relationship with investors, so as to further enhance its 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 2012.

## 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 material changes in the nature of the Group's key business during the reporting period.

## Business Model and Direction of Strategy

The Company insists to adhere to the market-oriented principle of development and committed to creating sustainable value for the shareholders in order to achieve sustainable development for the Company. Sales revenue of products is the major source of income of the Company.

The key direction of the Company's strategy lies in:

### 1. Steady development of the national railway market

To achieve the steady growth in the national railway market in order to maintain its leadership in the industry, thereby contributing to the source of profits for the sustainable development of the Company.

### 2. Comprehensive development of urban railway industry

To expand the products lines by capitalizing on the opportunity of the rapid growth of the urban railway market and to win the market share using the Company's best endeavours in order to establish itself as the market leader.

### 3. Breakthrough in the emerging markets

By way of expansion with concentric diversification, the Company will identify constantly new business segment, with which new core ability could be built swiftly, thereby allowing it to make breakthrough in the emerging markets.

### 4. Active plot to develop the overseas market

Step by step implementation of global strategy to achieve global operation.

## Results and dividends

Results of the Group for the year ended 31 December 2012, prepared in accordance with PRC Accounting Standards, are set out on page 48 to page 167 of this annual report.

The Company has profit attributable to shareholders (before the proposed final dividend) of RMB2,725.1 million as at 31 December 2012. The Board proposed distribution of a cash dividend of RMB0.350 per share (including applicable tax) for the year.

## Directors' Report

In order to ascertain the entitlements of shareholders to attend the forthcoming annual general meeting to be held on 10 June 2013, the register of members of the Company will be temporarily closed from 11 May 2013 to 10 June 2013 (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 15 June 2013 to 20 June 2013 (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 for five working days prior to the declaration of dividend at the 2012 annual general meeting to be held on 10 June 2013).

### 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 2012 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 2012 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 2012 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 2012. 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 "Issued Option Shares"). 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 Issued Option Shares. 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 Issued Option Shares. The number of Option Shares which may be issued to any one Participant shall not exceed 5% of the Issued Option Shares.

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 or cancelled 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 1 January 2012	Number of options lapsed during the year	Number of options outstanding as at 31 December 2012
Directors of Dynex	10 December 2007	9 December 2012	CAD 0.30	100,000	(100,000)	—
	14 February 2008	13 February 2013	CAD 0.30	50,000	—	50,000 (Note 5)
Total				150,000	(100,000)	50,000

Notes:

- All outstanding options are fully vested.
- The outstanding options have a weighted average remaining life of 2.3 months and a weighted average exercise price of CAD 0.30.
- 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.
- 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.
- Such outstanding options were lapsed on 14 February 2013.

### 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 or in the Articles which oblige the Company to offer new shares on a pro-rata basis to its existing shareholders.

## Directors' Report

### 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 2012, the Company's profit distributable to shareholders calculated in accordance with relevant regulations amounted to approximately RMB2,725.1 million, of which RMB379.5 million has been proposed to be paid as final dividend for the year.

### Major customers and suppliers

The percentage of revenue for sales of goods attributable to the Group's five largest customers during the year was approximately 54.8% of the Group's total revenue.

CSR Sifang is the largest customer of the Group, and the percentage of the Group's revenue attributable to sale to CSR Sifang during the year was approximately 26.2% 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 of 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 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

### Supervisors

He Wencheng – Chairman of the Supervisory Committee

Pang Yiming – employee representative supervisor

Zhou Guifa – employee representative supervisor

Geng Jianxin – independent supervisor

## Composition of the Supervisory Committee

According to the Articles, 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. The number of members of the Supervisory Committee 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 11 to page 15 of this annual report.

## Directors' 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 2012, 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

Other than the stock option plan and the directors' share plan of Dynex set out above, as at 31 December 2012, none of the Directors, supervisors and 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 rewards employees having outstanding performance with salary increments and bonuses. 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 2012, the Group has 5,160 full time employees, and the total amount of remuneration (including salaries and allowances) for employees in 2012 was approximately RMB760 million.

The remuneration of Directors and supervisors is 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 has 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 2012 was as follows:

As at 31 December 2012			
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%
<b>Total</b>		<b>1,084,255,637</b>	<b>100%</b>



## Directors' Report

### 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 2012 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.	648,000 (Long position)	Beneficial owner	—	0.14%	0.06%
	13,738,649 (Long position)	Investment manager	—	3.01%	1.27%
	31,194,305 (Lending pool shares)	Custodian/ Approved lending agent	—	6.84%	2.88%
BlackRock, Inc. (Note 3)	33,850,145 (Long position)	Interest in controlled entity	—	7.42%	3.12%
	3,585,023 (Short position)	Interest in controlled entity	—	0.79%	0.33%
Deutsche Bank Aktiengesellschaft (Note 4)	2,098,079 (Long position)	Beneficial owner	—	0.46%	0.19%
	627,090 (Short position)	Beneficial owner	—	0.14%	0.06%
	7,736,500 (Long position)	Investment manager	—	1.70%	0.71%
	21,563,000 (Long position)	Person having a security interest in shares	—	4.73%	1.99%
	19,477,000 (Short position)	Person having a security interest in shares	—	4.27%	1.80%
	227,000 (Long position)	Custodian/ Approved lending agent	—	0.05%	0.02%

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
The Capital Group Companies, Inc. (Note 5)	27,572,000 (Long position)	Interest in controlled entity	—	6.05%	2.54%
Allianz SE (Note 6)	27,042,700 (Long position)	Interest in controlled entity	—	5.93%	2.49%
Fortis Investment Management SA	23,544,000 (Long position)	Investment manager	—	5.16%	2.17%
BNP Paribas Investment Partners SA	23,307,000 (Long position)	Investment manager	—	5.11%	2.15%
Morgan Stanley (Note 7)	23,281,815 (Long position)	Interest in controlled entity	—	5.10%	2.15%
	23,198,747 (Short position)	Interest in controlled entity	—	5.09%	2.14%
Schroders Plc	22,838,000 (Long position)	Investment manager	—	5.00%	2.11%

Notes:

- (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 57.12% 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., 120,000 H shares are short positions in underlying shares under equity derivative interests. BlackRock, Inc. holds its interests in the shares of the Company and short positions through its subsidiaries. BlackRock, Inc. and is deemed to be interested in the shares of the Company held by those subsidiaries under the SFO.
- (4) As stated in the corporate substantial shareholders notification filed in by Deutsche Bank Aktiengesellschaft, 626,000 H shares are long positions in underlying shares under equity derivative interests.
- (5) As stated in the corporate substantial shareholders notification filed in by The Capital Group Companies, Inc., it holds interests in the shares of the Company through the following companies:
  - (a) 8,374,000 H shares are held by Capital International Sarl;
  - (b) 325,000 H shares are held by Capital International Limited;
  - (c) 13,435,000 H shares are held by Capital International Inc.; and
  - (d) 5,438,000 H shares are held by Capital Guardian Trust Company.

All of the above companies are indirect wholly-owned subsidiaries of The Capital Group Companies, Inc.. The Capital Group Companies, Inc. is deemed to be interested in the shares of the Company held by the above companies under the SFO.

## Directors' Report

(6) As stated in the corporate substantial shareholders notification filed in by Allianz SE, it holds interests in the shares of the Company through the following companies:

- (a) 31,000 H shares are held by Allianz Invest Kapitalanlagegesellschaft mbH;
- (b) 28,700 H shares are held by Allianz Global Investors Fund Management LLC;
- (c) 367,000 H shares are held by RCM(UK) Ltd;
- (d) 271,000 H shares are held by Allianz Global Investors Europe GmbH;
- (e) 25,260,000 H shares are held by RCM Asia Pacific Ltd; and
- (f) 1,085,000 H shares are held by Allianz Global Investors Taiwan Ltd.

All of the above companies are indirect wholly-owned subsidiaries of Allianz SE. Allianz SE is deemed to be interested in the shares of the Company held by the above companies under the SFO.

(7) As stated in the corporate substantial shareholders notification filed in by Morgan Stanley, 472,000 H shares are long positions in underlying shares under equity derivative interests. Morgan Stanley holds interests in the shares of the Company through the following companies:

- (a) 13,462,940 H shares and 13,734,681 H shares (short positions) are held by Morgan Stanley & Co. International, plc.;
- (b) 9,457,875 H shares and 9,457,875 H shares (short positions) are held by Morgan Stanley & Co. LLC;
- (c) 361,000 H shares are held by Morgan Stanley Capital Services, Inc.; and
- (d) 6,191 H shares (short positions) are held by Morgan Stanley Asia Products Limited.

All of the above companies are indirect wholly-owned subsidiaries/subsidiaries of Morgan Stanley. Morgan Stanley is deemed to be interested in the shares of the Company held by the above companies under the SFO.

## 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 CSR Group

On 4 December 2006, the Company signed a mutual supply agreement with CSR Group 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 CSR Group while the CSR 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 from 2009 to 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 2012, the amount payable by the Group to the CSRG Group for the products and services supplied by the CSRG Group under the CSRG Renewed Agreement (as supplemented by the CSRG First Supplemental Agreement and the CSRG Second Supplemental Agreement) amounted to RMB795 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 RMB3,635 million, which are within the annual caps of continuing connected transactions for the year ended 31 December 2012 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 Rule 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, reasonable and in the interest of the Company's shareholders as a whole; and
- (4) did not exceed the total annual caps for 2012 approved at the extraordinary general meeting held by the Company on 10 June 2011.

# Directors' Report

## Connected Transaction

On 25 June 2012, the Company (as a principal) and ZNERCC (as a contractor) entered into (1) the 1036 kWp EPC Contract pursuant to which the Company agreed to subcontract certain works of the 1036 kWp Project to ZNERCC for a consideration of RMB980,000; and (2) the PV EPC Contract pursuant to which the Company agreed to appoint ZNERCC to provide engineering, procurement and construction management services for the PV Project for a consideration of RMB65,311,100.

1036 kWp Project was the demonstration project in relation to the construction and application of 1036 kWp solar energy power generation system. The facilities of the 1036 kWp Project were built on the roofs of designated plants of the Company with a total area of approximately 10,000 square meters and were completed by August 2012. The facilities of the 1036 kWp Project have a total installed capacity of 1,036 kW and an annual power generation capacity of approximately 1,034,000 kWh.

PV Project was the project in relation to the construction and installation of the photovoltaic power generation system that generates electricity using solar energy and its facilities were built on the roofs of the designated plants and/or buildings of the CSR Group (including the Group) with the total installed area of approximately 90,000 square meters and were completed by December 2012. The facilities of the PV Project have a total installed capacity of 8,163.9 kW and an annual power generation capacity of approximately 7,510,000 kWh.

The Parent Company is a controlling shareholder of the Company and ZNERCC is a wholly-owned subsidiary of the Parent Company, ZNERCC is therefore a connected person of the Company as defined under the Listing Rules. The above contracts constitute non-exempt connected transactions of the Company and are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under the Listing Rules.

## 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 should 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 CSR 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 CSR 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 CSR 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 CSR Group.
- (vi) The terms for the supply and purchase arrangements entered into between the Group and the CSR 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 and rolling stock 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 CSR Group (excluding the Parent Group) on 30 November 2006. The Parent Group and the CSR 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 CSR Group (excluding the Parent Group) for the year ended 2012, and reviewed relevant information provided by the Parent Group and the CSR Group (excluding the Parent Group). The independent non-executive Directors were of the opinion that the Parent Group and the CSR Group (excluding the Parent Group) complied with the relevant terms of the non-competition and indemnity agreements in 2012. The Parent Group and the CSR 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

On 28 March 2013, the ninth meeting of the third session of the Board of the Company approved the profit distribution plan for 2012 to distribute cash dividends of RMB379,489,472.95 in total to all shareholders, equivalent to the distribution of RMB0.350 per share (tax inclusive) based on the total number of 1,084,255,637 shares of the Company.

## Directors' Report

### Taxation

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%.

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.

The proposed dividend to be distributed is subject to the approval of the shareholders at the annual general meeting to be held on 10 June 2013.

Save as disclosed above, for the year ended 31 December 2012, 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

28 March 2013

# Supervisory Committee's Report

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

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

1. During the year, the Company held four Supervisory Committee meetings. The notices, convening, holding and passing of 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 2011 working report of the Supervisory Committee, the 2011 financial report, the 2011 annual report, the 2012 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 2012, in accordance with applicable laws and regulations, the Supervisory Committee reviewed the procedures adopted in the convening, passing of resolutions, decision-making procedures, results of voting of the Company's general meetings and the Board meetings, implementation of resolutions of general meetings by the Board, the performance of duties of senior management and the management system of the Company. The Supervisory Committee is of the opinion 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 which were materially prejudicial to the Company or the interests of shareholders.

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

The Supervisory Committee seriously reviewed the Group's financial system and financial position in detail. The Supervisory Committee considers the Group's 2012 financial reports is true and accurate and presented the financial position and operating results fairly, and that the audit opinion and other relevant comments made by Ernst & Young Hua Ming are also true and fair.



# Supervisory Committee's Report

## 3. Connected transactions

The Supervisory Committee considers that connected transactions between the Group and the CSR 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 2012 were in compliance with the relevant laws and regulations of the PRC and is not aware of any impairment to the Company's and shareholders' interest by means of connected transactions, and the total value of connected transactions was within the 2012 aggregate annual caps approved by the independent shareholders at the extraordinary general meeting held on 10 June 2011.

## 4. The implementation of non-competition and indemnity deeds

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

## 5. The implementation of resolutions of the general meeting

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

### He Wencheng

*Chairman of the Supervisory Committee*

Changsha, Hunan, PRC

28 March 2013

# Auditors' Report

(English Translation For Reference Only)



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Ernst & Young Hua Ming (2013) 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 2012, 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.

# Auditors' Report

*(English Translation For Reference Only)*

## 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 2012 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 LLP

Chinese Certified Public Accountant: Zhang Ningning

Chinese Certified Public Accountant: Liu Xin

Beijing, the People's Republic of China

28 March 2013

# Consolidated Balance Sheet

31 December 2012

Renminbi Yuan

<b>ASSETS</b>	Note V	<b>31 December 2012</b>	31 December 2011
<b>CURRENT ASSETS</b>			
Cash and bank balances	1	<b>2,318,915,451</b>	2,157,721,027
Bills receivable	2	<b>890,637,187</b>	1,051,609,300
Trade receivables	3	<b>2,737,063,058</b>	1,119,253,348
Prepayments	4	<b>87,946,123</b>	109,766,313
Other receivables	5	<b>54,126,114</b>	103,373,942
Inventories	6	<b>1,109,921,460</b>	1,668,583,237
Non-current assets due within one year	8	<b>1,163,640</b>	1,092,595
Other current assets	7	<b>3,264,824</b>	326,745,808
<b>Total current assets</b>		<b>7,203,037,857</b>	6,538,145,570
<b>NON-CURRENT ASSETS</b>			
Long-term receivables	8	<b>609,036</b>	1,772,676
Long-term equity investments	10	<b>255,424,853</b>	202,853,768
Fixed assets	11	<b>1,452,286,623</b>	1,367,692,631
Construction in progress		<b>248,507,584</b>	135,340,542
Intangible assets	12	<b>204,704,556</b>	200,313,770
Development expenditure	12	<b>51,855,957</b>	39,322,801
Goodwill	13	<b>60,776,186</b>	58,694,931
Deferred tax assets	14	<b>92,779,141</b>	59,717,549
Other non-current assets	15	<b>79,729,478</b>	50,325,133
<b>Total non-current assets</b>		<b>2,446,673,414</b>	2,116,033,801
<b>TOTAL ASSETS</b>		<b>9,649,711,271</b>	8,654,179,371

The notes set out on page 64 to page 167 are components of these financial statements.

# Consolidated Balance Sheet

31 December 2012

Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	31 December 2012	31 December 2011
<b>CURRENT LIABILITIES</b>			
Short-term borrowings	18	—	139,000,000
Short-term bonds payable	19	—	500,000,000
Bills payable	20	<b>713,768,911</b>	448,604,661
Trade payables	21	<b>1,273,648,373</b>	906,553,647
Receipts in advance	22	<b>291,978,737</b>	351,164,281
Employee benefits payable	23	<b>63,912,163</b>	15,390,522
Taxes payable	24	<b>356,194,164</b>	286,584,166
Interest payable	25	—	12,468,969
Other payables	26	<b>129,848,739</b>	134,599,283
Non-current liabilities due within one year	27	<b>202,220,874</b>	125,258,321
<b>Total current liabilities</b>		<b>3,031,571,961</b>	2,919,623,850
<b>NON-CURRENT LIABILITIES</b>			
Long-term borrowings	28	<b>28,336,915</b>	57,075,276
Deferred tax liabilities	14	<b>16,285,166</b>	15,725,481
Provisions	29	<b>131,327,630</b>	134,147,121
Other non-current liabilities	30	<b>129,227,463</b>	89,923,075
<b>Total non-current liabilities</b>		<b>305,177,174</b>	296,870,953
<b>Total liabilities</b>		<b>3,336,749,135</b>	3,216,494,803
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	31	<b>1,084,255,637</b>	1,084,255,637
Capital reserve	32	<b>1,693,508,949</b>	1,693,508,949
Surplus reserve	33	<b>469,062,942</b>	350,134,445
Retained earnings	34	<b>2,952,057,924</b>	2,218,523,143
Exchange fluctuation reserve		<b>(20,660,520)</b>	(29,761,317)
<b>Total equity attributable to shareholders of the Parent</b>		<b>6,178,224,932</b>	5,316,660,857
<b>Minority interests</b>		<b>134,737,204</b>	121,023,711
<b>Total shareholders' equity</b>		<b>6,312,962,136</b>	5,437,684,568
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>9,649,711,271</b>	8,654,179,371

The notes set out on page 64 to page 167 are components of these financial statements.

The financial statements are signed by the following persons:

Legal Representative:

**Ding Rongjun**

Chief Financial Officer:

**Xiao Shaoping**

Head of Accounting Department:

**Liu Zehua**

# Consolidated Income Statement

For the year ended 31 December 2012

Renminbi Yuan

	Note V	2012	2011
Revenue	35	<b>7,216,498,178</b>	7,124,774,974
Less: Cost of sales	35	<b>4,781,008,546</b>	4,598,693,100
Business taxes and surcharges	36	<b>62,540,030</b>	45,691,926
Selling expenses		<b>331,209,461</b>	347,441,917
Administrative expenses	37	<b>859,159,316</b>	817,743,978
Finance costs	38	<b>(9,303,135)</b>	27,342,197
Asset impairment losses	39	<b>11,183,891</b>	68,847,635
Add: Investment income	40	<b>98,674,730</b>	51,090,507
including: share of profits of associates and a jointly-controlled entity	40	<b>77,503,842</b>	49,811,540
Operating profit		<b>1,279,374,799</b>	1,270,104,728
Add: Non-operating income	41	<b>122,410,654</b>	112,153,540
Less: Non-operating expenses	42	<b>1,156,129</b>	1,336,057
including: loss on disposal of non-current assets	42	<b>605,759</b>	904,403
Total profit		<b>1,400,629,324</b>	1,380,922,211
Less: Income tax expense	43	<b>178,119,117</b>	193,885,925
Net profit		<b>1,222,510,207</b>	1,187,036,286
Net profit attributable to shareholders of the Parent		<b>1,221,110,195</b>	1,184,442,891
Minority interests		<b>1,400,012</b>	2,593,395
Earnings per share (Yuan/Share)	44		
Basic		<b>1.13</b>	1.09
Diluted		<b>1.13</b>	1.09
Other comprehensive income/(loss)	45	<b>11,414,278</b>	(12,416,819)
Total comprehensive income		<b>1,233,924,485</b>	1,174,619,467
Including:			
Total comprehensive income attributable to shareholders of the Parent		<b>1,230,210,992</b>	1,174,411,811
Total comprehensive income attributable to minority interests		<b>3,713,493</b>	207,656

The notes set out on page 64 to page 167 are components of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

Renminbi Yuan

2012	Attributable to shareholders of the Parent							Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Exchange fluctuation reserve	Sub-total		
I. Closing balance of last year	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
II. Movements during the year									
(i) Net profit	-	-	-	-	1,221,110,195	-	1,221,110,195	1,400,012	1,222,510,207
(ii) Other comprehensive income									
1. Exchange differences on translation of foreign operations	-	-	-	-	-	9,100,797	9,100,797	2,313,481	11,414,278
Total comprehensive income	-	-	-	-	1,221,110,195	9,100,797	1,230,210,992	3,713,493	1,233,924,485
(iii) Capital contribution and withdrawal by shareholders									
1. Capital contribution by minority shareholders	-	-	-	-	-	-	-	10,000,000	10,000,000
(iv) Profit appropriation									
1. Transfer to surplus reserve	-	-	-	118,928,497	(118,928,497)	-	-	-	-
2. Dividend paid	-	-	-	-	(368,646,917)	-	(368,646,917)	-	(368,646,917)
(v) Special reserve									
1. Accrued during the year	-	-	16,343,027	-	-	-	16,343,027	-	16,343,027
2. Paid during the year	-	-	(16,343,027)	-	-	-	(16,343,027)	-	(16,343,027)
III. Closing balance	<u>1,084,255,637</u>	<u>1,693,508,949</u>	<u>-</u>	<u>469,062,942</u>	<u>2,952,057,924</u>	<u>(20,660,520)</u>	<u>6,178,224,932</u>	<u>134,737,204</u>	<u>6,312,962,136</u>

The notes set out on page 64 to page 167 are components of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

Renminbi Yuan

2011	Attributable to shareholders of the Parent						Sub-total	Minority interests	Total shareholders' equity
	Share capital	Capital reserve	Surplus reserve	Retained earnings	Exchange fluctuation reserve				
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	<u>1,084,255,637</u>	<u>1,693,508,949</u>	<u>350,134,445</u>	<u>2,218,523,143</u>	<u>(29,761,317)</u>	<u>5,316,680,857</u>	<u>121,023,711</u>	<u>5,437,684,568</u>	

The notes set out on page 64 to page 167 are components of these financial statements.



# Consolidated Cash Flow Statement

For the year ended 31 December 2012

Renminbi Yuan

	Note V	2012	2011
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		<b>5,148,515,826</b>	7,884,964,903
Refunds of taxes		<b>112,419,706</b>	44,835,429
Cash received relating to other operating activities		<b>122,926,714</b>	151,718,503
Sub-total of cash inflows from operating activities		<b>5,383,862,246</b>	8,081,518,835
Cash paid for goods and services		<b>(1,947,850,400)</b>	(4,801,367,322)
Cash paid to and on behalf of employees		<b>(702,861,806)</b>	(643,605,339)
Cash paid for all types of taxes		<b>(695,824,487)</b>	(498,964,687)
Cash paid relating to other operating activities		<b>(790,636,955)</b>	(895,810,788)
Sub-total of cash outflows from operating activities		<b>(4,137,173,648)</b>	(6,839,748,136)
Net cash flows from operating activities	46	<b>1,246,688,598</b>	1,241,770,699
2. Cash flows from investing activities:			
Cash received from disposal or returns of investments		<b>1,101,000,000</b>	—
Cash received from returns on investments		<b>62,353,645</b>	16,340,677
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		<b>21,367,335</b>	27,870,337
Cash received relating to other investing activities		<b>41,811,300</b>	—
Sub-total of cash inflows from investing activities		<b>1,226,532,280</b>	44,211,014
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		<b>(403,311,025)</b>	(352,290,785)
Cash paid for acquisition of investments		<b>(807,250,000)</b>	(310,000,000)
Sub-total of cash outflows from investing activities		<b>(1,210,561,025)</b>	(662,290,785)
Net cash flows from/(used in) investing activities		<b>15,971,255</b>	(618,079,771)

The notes set out on page 64 to page 167 are components of these financial statements.

## Consolidated Cash Flow Statement

For the year ended 31 December 2012

Renminbi Yuan

	Note V	2012	2011
3. Cash flows from financing activities:			
Cash received from capital contribution		10,000,000	24,000,000
including: cash received from minority shareholders of subsidiaries		10,000,000	24,000,000
Cash received from issuance of short-term bonds		—	498,000,000
Cash received from borrowings		8,008,862	440,984,790
Sub-total of cash inflows from financing activities		18,008,862	962,984,790
Cash repayment of short-term bonds		(500,000,000)	(500,000,000)
Cash repayment of borrowings		(140,030,455)	(244,736,975)
Cash paid for distribution of dividend or profits and for interest expenses		(397,069,864)	(357,699,681)
Sub-total of cash outflows from financing activities		(1,037,100,319)	(1,102,436,656)
Net cash flows used in financing activities		(1,019,091,457)	(139,451,866)
4. Effect of foreign exchange rate changes on cash and cash equivalents		—	—
5. Net increase in cash and cash equivalents		243,568,396	484,239,062
Add: cash and cash equivalents at beginning of year		2,053,718,390	1,569,479,328
6. Cash and cash equivalents at end of year	46	2,297,286,786	2,053,718,390

The notes set out on page 64 to page 167 are components of these financial statements.

# Balance Sheet

31 December 2012

Renminbi Yuan

<b>ASSETS</b>	Note XI	<b>31 December 2012</b>	31 December 2011
<b>CURRENT ASSETS</b>			
Cash and bank balances		<b>1,956,420,369</b>	1,796,772,759
Bills receivable		<b>790,339,052</b>	907,710,223
Trade receivables	1	<b>2,345,629,354</b>	954,599,711
Prepayments		<b>36,927,671</b>	95,270,853
Other receivables	2	<b>383,481,912</b>	343,291,085
Inventories		<b>849,777,843</b>	1,444,346,990
Non-current assets due within one year		<b>1,163,640</b>	1,092,595
Other current assets		<b>—</b>	300,000,000
<b>Total current assets</b>		<b>6,363,739,841</b>	5,843,084,216
<b>NON-CURRENT ASSETS</b>			
Long-term receivables		<b>609,036</b>	1,772,676
Long-term equity investments	3	<b>991,710,164</b>	904,227,042
Fixed assets		<b>927,616,543</b>	921,212,320
Construction in progress		<b>228,380,979</b>	103,100,459
Intangible assets		<b>98,052,785</b>	96,827,829
Development expenditure		<b>24,153,369</b>	26,594,184
Deferred tax assets		<b>87,818,452</b>	56,042,153
Other non-current assets		<b>67,258,522</b>	38,268,244
<b>Total non-current assets</b>		<b>2,425,599,850</b>	2,148,044,907
<b>TOTAL ASSETS</b>		<b>8,789,339,691</b>	7,991,129,123

The notes set out on page 64 to page 167 are components of these financial statements.

## Balance Sheet

31 December 2012

Renminbi Yuan

	31 December 2012	31 December 2011
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term borrowings	—	139,000,000
Short-term bonds payable	—	500,000,000
Bills payable	594,091,570	397,588,080
Trade payables	1,079,882,686	744,516,462
Receipts in advance	263,678,337	325,908,032
Employee benefits payable	52,689,851	5,811,415
Taxes payable	327,674,957	267,470,874
Interest payable	—	12,468,969
Other payables	104,935,010	119,155,961
Non-current liabilities due within one year	154,718,634	117,560,719
<b>Total current liabilities</b>	<b>2,577,671,045</b>	<b>2,629,480,512</b>
<b>NON-CURRENT LIABILITIES</b>		
Provisions	127,003,488	130,332,806
Other non-current liabilities	113,012,967	80,301,667
<b>Total non-current liabilities</b>	<b>240,016,455</b>	<b>210,634,473</b>
<b>Total liabilities</b>	<b>2,817,687,500</b>	<b>2,840,114,985</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital	1,084,255,637	1,084,255,637
Capital reserve	1,693,282,738	1,693,282,738
Surplus reserve	469,062,942	350,134,445
Retained earnings	2,725,050,874	2,023,341,318
<b>Total shareholders' equity</b>	<b>5,971,652,191</b>	<b>5,151,014,138</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>8,789,339,691</b>	<b>7,991,129,123</b>

The notes set out on page 64 to page 167 are components of these financial statements.

# Income Statement

For the year ended 31 December 2012

Renminbi Yuan

	Note XI	2012	2011
Revenue	4	<b>6,316,010,363</b>	6,355,058,217
Less: Cost of sales	4	<b>4,343,594,687</b>	4,216,017,790
Business taxes and surcharges		<b>53,698,304</b>	39,079,597
Selling expenses		<b>272,234,049</b>	292,825,919
Administrative expenses		<b>641,832,529</b>	629,838,943
Finance costs		<b>(11,545,921)</b>	26,740,379
Asset impairment losses		<b>4,281,773</b>	81,068,240
Add: Investment income	5	<b>232,686,470</b>	231,090,507
including: share of profits of associates and a jointly-controlled entity	5	<b>77,503,842</b>	49,811,540
Operating profit		<b>1,244,601,412</b>	1,300,577,856
Add: Non-operating income		<b>88,292,949</b>	100,023,383
Less: Non-operating expenses		<b>492,661</b>	1,033,252
including: loss on disposal of non-current assets		<b>395,057</b>	825,454
Total profit		<b>1,332,401,700</b>	1,399,567,987
Less: Income tax expense		<b>143,116,730</b>	168,827,255
Net profit		<b>1,189,284,970</b>	1,230,740,732
Other comprehensive income		<b>—</b>	—
Total comprehensive income		<b>1,189,284,970</b>	1,230,740,732

The notes set out on page 64 to page 167 are components of these financial statements.

# Statement of Changes in Equity

For the year ended 31 December 2012

Renminbi Yuan

2012	Share capital	Capital reserve	Special reverse	Surplus reserve	Retained earnings	Total shareholders' equity
I. Closing balance of last year	1,084,255,637	1,693,282,738	—	350,134,445	2,023,341,318	5,151,014,138
II. Movements during the year						
(i) Net profit	—	—	—	—	1,189,284,970	1,189,284,970
(ii) Other comprehensive income	—	—	—	—	—	—
Total comprehensive income	—	—	—	—	1,189,284,970	1,189,284,970
(iii) Profit appropriation						
1. Transfer to surplus reserve	—	—	—	118,928,497	(118,928,497)	—
2. Dividend paid	—	—	—	—	(368,646,917)	(368,646,917)
(iv) Special reserve						
1. Accrued during the year	—	—	12,038,870	—	—	12,038,870
2. Paid during the year	—	—	(12,038,870)	—	—	(12,038,870)
III. Closing balance	<u>1,084,255,637</u>	<u>1,693,282,738</u>	<u>—</u>	<u>469,062,942</u>	<u>2,725,050,874</u>	<u>5,971,652,191</u>

The notes set out on page 64 to page 167 are components of these financial statements.

## Statement of Changes in Equity

For the year ended 31 December 2012

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	<u>1,084,255,637</u>	<u>1,693,282,738</u>	<u>350,134,445</u>	<u>2,023,341,318</u>	<u>5,151,014,138</u>

The notes set out on page 64 to page 167 are components of these financial statements.

# Cash Flow Statement

For the year ended 31 December 2012

Renminbi Yuan

	Note XI	2012	2011
1. Cash flows from operating activities:			
Cash received from sale of goods or rendering of services		4,675,958,784	6,966,753,931
Refunds of taxes		85,945,504	41,337,946
Cash received relating to other operating activities		83,852,021	136,287,287
Sub-total of cash inflows from operating activities		4,845,756,309	7,144,379,164
Cash paid for goods and services		(2,066,709,011)	(4,511,957,390)
Cash paid to and on behalf of employees		(463,634,243)	(448,324,092)
Cash paid for all types of taxes		(571,250,212)	(405,837,406)
Cash paid relating to other operating activities		(683,783,123)	(819,946,613)
Sub-total of cash outflows from operating activities		(3,785,376,589)	(6,186,065,501)
Net cash flows from operating activities	6	1,060,379,720	958,313,663
2. Cash flows from investing activities:			
Cash receipts from disposal or returns of investments		1,091,000,000	—
Cash received from returns on investments		196,365,385	196,340,677
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		15,414,904	25,655,044
Cash received relating to other investing activities		35,011,300	—
Sub-total of cash inflows from investing activities		1,337,791,589	221,995,721
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		(272,349,924)	(177,367,619)
Cash paid for acquisition of investments		(842,162,037)	(321,000,000)
Sub-total of cash outflows from investing activities		(1,114,511,961)	(498,367,619)
Net cash flows from/(used in) investing activities		223,279,628	(276,371,898)

The notes set out on page 64 to page 167 are components of these financial statements.



## Cash Flow Statement

For the year ended 31 December 2012

Renminbi Yuan

	2012	2011
3. Cash flows from financing activities:		
Cash received from the issuance of short-term bonds	—	498,000,000
Cash received from borrowings	—	368,414,694
Sub-total of cash inflows from financing activities	—	866,414,694
Cash paid for repayment of short-term bonds	<b>(500,000,000)</b>	(500,000,000)
Cash repayments of borrowings	<b>(139,000,000)</b>	(229,414,694)
Cash paid for distribution of dividends or profits and for interest expenses	<b>(395,032,546)</b>	(356,349,146)
Sub-total of cash outflows from financing activities	<b>(1,034,032,546)</b>	(1,085,763,840)
Net cash flows used in financing activities	<b>(1,034,032,546)</b>	(219,349,146)
4. Effect of foreign exchange rate changes on cash and cash equivalents	—	—
5. Net increase in cash and cash equivalents	<b>249,626,802</b>	462,592,619
Add: Cash and cash equivalents at beginning of year	<b>1,706,793,567</b>	1,244,200,948
6. Cash and cash equivalents at end of year	<b>1,956,420,369</b>	1,706,793,567

The notes set out on page 64 to page 167 are components of these financial statements.

# Notes to Financial Statements

31 December 2012

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 sale and manufacture of train-borne electrical systems and electrical components.

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 HKD5.3 per share. The total proceeds before deducting issuing expenses amounted to HKD2,197,613,000 (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 2012, 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 28 March 2013. According to the Articles of Association of the Company, the financial statements will be submitted to the general meeting for consideration.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## 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.

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 year 2011, 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 for information disclosure at the Hong Kong Stock Exchange.

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. 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 2012 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.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## 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 2012 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 exercise 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.

## II. Significant Accounting Policies and Estimates (continued)

### 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.

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;
- (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.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## II. Significant Accounting Policies and Estimates (continued)

### 9. Financial instruments (continued)

#### **Recognition and derecognition** (continued)

If the underlying obligation of a financial liability has been fulfilled or 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.

#### **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 are 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.

## II. Significant Accounting Policies and Estimates (continued)

### 9. Financial instruments (continued)

#### **Classification and measurement of financial assets** (continued)

##### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such kind of financial assets are 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.

##### *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. Interest 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.



# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## II. Significant Accounting Policies and Estimates (continued)

### 9. Financial instruments (continued)

#### **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.

#### **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 been 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.

## II. Significant Accounting Policies and Estimates (continued)

### 9. Financial instruments (continued)

#### **Impairment of financial assets** (continued)

##### *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.

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.

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.

##### *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 cannot 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.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## II. Significant Accounting Policies and Estimates (continued)

### 10. Inventories

Inventories includes raw materials, 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 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.

### 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.

## II. Significant Accounting Policies and Estimates (continued)

### 11. Long-term equity investments (continued)

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.

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.

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## II. Significant Accounting Policies and Estimates (continued)

### 11. Long-term equity investments (continued)

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 enterprises 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.

### 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 an expenditure shall be recognised in the profit or loss for the period in which it is 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.

Except accrued production safety reserve, 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.

Construction in progress is transferred to fixed assets 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 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.

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## 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 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:

	<b>Useful life</b>
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 recognises 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 sale of goods.



# Notes to Financial Statements

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## 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 the 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.

## II. Significant Accounting Policies and Estimates (continued)

### 19. Income tax (continued)

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.

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 utilised 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 utilised. 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.

# Notes to Financial Statements

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## II. Significant Accounting Policies and Estimates (continued)

### 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 the 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 the 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.

### 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.

## II. Significant Accounting Policies and Estimates (continued)

### 21. Impairment of assets (continued)

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.

### 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.

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## II. Significant Accounting Policies and Estimates (continued)

### 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. Production safety expenses

Production safety expenses accrued according to the rules, shall be recorded in the costs of related products or profit or loss for the current period, and "Special reserve". When used to distinguish whether it will generate fixed assets for processing, respectively: if belongs to disbursement costs, directly offset against special reserve; if generates fixed assets, summarise the expenditure occurred, and recognised as fixed assets until the asset is ready for its intended use. Meanwhile, offset against special reserve and accumulated depreciation shall be recognised equivalent at the same time.

### 27. Significant accounting estimates

The preparation of the financial statements requires management to make judgments, estimates that will affect the reported amounts and disclosure 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)

### 27. 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 utilised. 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.

# Notes to Financial Statements

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## 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, 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. GF201143000144 and No. 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 Gao Ban Zi [2013] No. 33 (湘科高辦字[2013]33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. GF201243000112) on 12 November 2012 for a validity period of three years.

## 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 for the development of Western Region can be adopted until 2020. Article 2 of this document regulated that "From 1 January 2011 to 31 December 2020, the enterprise in encouraged industries which are set up in the Western Region can enjoy a corporate income tax at the reduced rate of 15%. These enterprises in encouraged industries refers to the principal activities of the industry project provided in the "Category of Encouraged Industries in the 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 Encouraged Industries in the Western Region" will be published separately. Despite the above "Category of Encourage Industries in Western Region" has not yet been issued, the management of Baoji CSR Times Engineering Machinery Co., Ltd. ("Baoji Times"), a subsidiary of the Company, believes that the Company engaged in the principal activities which the industry projects provided in the "Category of encouraged industries in the 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 in the current period.



# Notes to Financial Statements

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## 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	Types of subsidiaries	Place of registration	Registered capital	Nature of business	Scope of business	Proportion of shareholding		Proportion of votes	Consolidated or not	Notes
						Direct	Indirect			
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 Electric")	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 Electric")	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	
CSR Times Electric (Hong Kong) Co., Limited ("HK Electric")	Limited liability company	Hong Kong	HKD 10,000,000	Trading	Overseas trading and related business	100%	—	100%	Yes	Note 2
Ningbo CSR Electric Equipment Co., Ltd. ("Ningbo Electric")	Limited liability company	Ningbo Zhejiang	RMB 10,000,000	Manufacture industry	Manufacture and sale of traction, signal, electrical supply and track system	100%	—	100%	Yes	Note 3
CSR Times Electric Australia Pty. Ltd. ("Times Australia")	Limited liability company	Australia	AUD 280,000	Trading	Sale of related products for railway vehicles	100%	—	100%	Yes	Note 4

# Notes to Financial Statements

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

### 1. Particulars of subsidiaries (continued)

Names of companies	Types of subsidiaries	Place of registration	Registered Capital	Nature of business	Scope of business	Proportion of shareholding		Proportion of votes	Consolidated or not	Notes
						Direct	Indirect			
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	GBP 15,000,000	Manufacture industry	Manufacture and sale of power semi-conductor and integrated circuit products	—	75%	75%	Yes	

Note 1: In accordance with the minutes of the general meeting of Hangzhou Electric held on 23 December 2011 and the provisions of its revised Articles of Association, Hangzhou Electric increased the registered capital to RMB75,000,000. In accordance with the minutes of the general meeting of Hangzhou Electric held on 11 May 2012, 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 RMB15,000,000 and RMB10,000,000, respectively, in Hangzhou Electric. Upon completion of the capital increment, the equity interest held by the Company in Hangzhou Electric remains at 60%. The paid-in capital of Hangzhou Electric after the capital increment is amounted to RMB55,000,000, and the relevant procedure for change in industrial and commercial registration was completed on 21 June 2012.

Note 2: On 20 July 2011, the Company established HK Electric. In May 2012, the company injected capital of HKD10,000,000 into HK Electric.

Note 3: On 14 December 2012, the Company established Ningbo Electric.

Note 4: On 20 March 2012, the Company established Times Australia.

### 2. Changes in scope of consolidation

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

### 3. Entity newly consolidated in the current year

The subsidiaries newly consolidated in 2012 is as follows:

	Net assets at the end of 2012	Net profit from the incorporation date to the end of the current year
Ningbo Electric	10,000,000	—
Times Australia	1,902,916	7,389

# Notes to Financial Statements

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## V. Notes to Key Items of the Consolidated Financial Statements

### 1. Cash and bank balances

	31 December 2012		
	Original currency	Exchange rate	RMB equivalent
Cash			
— CAD	2,749	6.3184	17,366
Cash in bank			
— RMB	2,241,443,089	1.0000	2,241,443,089
— USD	3,328,039	6.2855	20,918,389
— HKD	3,939,094	0.8109	3,194,211
— EUR	340,577	8.3176	2,832,783
— CAD	10,041	6.3184	63,443
— GBP	461,363	10.1611	4,687,956
— JPY	211,258,893	0.0730	15,421,899
— AUD	263,322	6.5363	1,721,152
— CHF	33,570	6.8219	229,011
			<u>2,290,511,933</u>
Other cash and bank balances			
— RMB	28,386,152	1.0000	28,386,152
			<u><u>2,318,915,451</u></u>

	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
— EUR	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
			<u>2,053,700,796</u>
Other cash and bank balances			
— RMB	104,002,637	1.0000	104,002,637
			<u><u>2,157,721,027</u></u>

# Notes to Financial Statements

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

### 1. Cash and bank balances (continued)

	<b>31 December 2012</b>	31 December 2011
Restricted cash and bank balances:		
Security deposits for acceptance bills	<b>21,421,004</b>	97,033,368
Security deposits for letters of guarantee	<b>6,965,148</b>	4,864,016
Security deposits for letters of credit	<b>—</b>	2,105,253
	<b>28,386,152</b>	104,002,637

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

As at 31 December 2012, the cash and bank balances deposited overseas by the Group were equivalent to RMB19,478,773 (31 December 2011: RMB22,810,794).

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.

### 2. Bills receivable

	<b>31 December 2012</b>	31 December 2011
Bank acceptance bills	<b>740,544,187</b>	919,148,640
Commercial acceptance bills	<b>150,093,000</b>	132,460,660
	<b>890,637,187</b>	1,051,609,300

As at 31 December 2011, the Group pledged its bills receivable of RMB198,894,960 for issuance of bank acceptance bills.

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.

# Notes to Financial Statements

31 December 2012

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

### 3. Trade receivables

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

The ageing analysis of the trade receivables is as follows:

	<b>31 December 2012</b>	31 December 2011
Within 6 months	<b>2,424,630,824</b>	902,907,803
6 months to 1 year	<b>246,686,191</b>	170,255,141
1 to 2 years	<b>83,905,920</b>	49,373,741
2 to 3 years	<b>11,500,065</b>	25,883,076
Over 3 years	<b>13,257,908</b>	9,208,557
	<b>2,779,980,908</b>	1,157,628,318
Less: provision for bad debt	<b>42,917,850</b>	38,374,970
	<b>2,737,063,058</b>	1,119,253,348

The movements of provision for bad debt are as follows:

	<b>2012</b>	2011
Opening balance	<b>38,374,970</b>	34,242,379
Provision in the current year	<b>7,064,898</b>	7,595,807
Transfer in the current year	—	1,017,130
Reversal in the current year	<b>(1,951,060)</b>	(4,254,766)
Write-off in the current year	<b>(583,204)</b>	(168,890)
Exchange realignment	<b>12,246</b>	(56,690)
Closing balance	<b>42,917,850</b>	38,374,970

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

	<b>Derecognised Amount</b>	<b>loss related to derecognition</b>
Non-recourse factoring of trade receivables	<b>161,686,555</b>	<b>3,071,971</b>

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

# Notes to Financial Statements

31 December 2012

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

### 4. Prepayments

The ageing analysis of prepayments is as follows:

	<b>31 December 2012</b>	31 December 2011
Within 1 year	<b>78,274,463</b>	97,992,397
1 to 2 years	<b>6,234,401</b>	10,180,203
2 to 3 years	<b>2,645,794</b>	1,593,713
Over 3 years	<b>791,465</b>	—
	<b><u>87,946,123</u></b>	<u>109,766,313</u>

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 ageing analysis of other receivables is as follows:

	<b>31 December 2012</b>	31 December 2011
Within 1 year	<b>50,464,202</b>	101,030,454
1 to 2 years	<b>2,208,441</b>	2,917,976
2 to 3 years	<b>2,561,242</b>	654,670
Over 3 years	<b>1,724,105</b>	1,305,792
	<b><u>56,957,990</u></b>	<u>105,908,892</u>
Less: provision for bad debt	<b><u>2,831,876</u></b>	<u>2,534,950</u>
	<b><u>54,126,114</u></b>	<u>103,373,942</u>

The movements of provision for bad debt are as follows:

	<b>2012</b>	2011
Opening balance	<b>2,534,950</b>	2,985,776
Provision in the current year	<b>1,829,876</b>	—
Reversal in the current year	<b>(1,532,950)</b>	(450,826)
Closing balance	<b><u>2,831,876</u></b>	<u>2,534,950</u>

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

# Notes to Financial Statements

31 December 2012

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

### 6. Inventories

	31 December 2012		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	506,720,215	57,633,748	449,086,467
Work in progress	353,240,992	21,523,807	331,717,185
Finished goods	385,153,114	60,778,709	324,374,405
Turnover materials	5,808,960	1,065,557	4,743,403
	<b>1,250,923,281</b>	<b>141,001,821</b>	<b>1,109,921,460</b>

  

	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
	<b>1,810,590,811</b>	<b>142,007,574</b>	<b>1,668,583,237</b>

The movements of provision for impairment of inventories are as follows:

### 2012

	Opening balance	Provision	Decrease		Exchange realignment	Closing balance
			Reversal (note 1)	Write-off (note 2)		
Raw materials	89,218,919	954,051	(31,114,622)	(1,751,600)	327,000	57,633,748
Work in progress	21,234,863	6,570,946	(2,273,882)	(4,450,301)	442,181	21,523,807
Finished goods	30,743,227	31,380,622	—	(1,587,387)	242,247	60,778,709
Turnover materials	810,565	256,012	—	(1,020)	—	1,065,557
	<b>142,007,574</b>	<b>39,161,631</b>	<b>(33,388,504)</b>	<b>(7,790,308)</b>	<b>1,011,428</b>	<b>141,001,821</b>

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.

# Notes to Financial Statements

31 December 2012

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

### 6. Inventories (continued)

2011

	Opening balance	Provision	Decrease		Exchange realignment	Closing balance
			Reversal (note 1)	Write-off (note 2)		
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
	<u>97,761,690</u>	<u>63,104,861</u>	<u>(17,883,559)</u>	<u>(224)</u>	<u>(975,194)</u>	<u>142,007,574</u>

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 or consumed.

As at 31 December 2012, no inventory of the Group was restricted (31 December 2011: Nil).

### 7. Other current assets

	<b>31 December 2012</b>	31 December 2011
Prepaid taxes	<b>3,264,824</b>	16,745,808
Bank financial products (note)	<b>—</b>	310,000,000
	<b><u>3,264,824</u></b>	<u>326,745,808</u>

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



# Notes to Financial Statements

31 December 2012

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

### 8. Long-term receivables

	31 December 2012			31 December 2011		
	Gross carrying amount	Impairment provision	Carrying amount	Gross carrying amount	Impairment provision	Carrying amount
Finance lease	1,772,676	—	1,772,676	2,865,271	—	2,865,271

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

	31 December 2012	31 December 2011
Within 1 year	1,163,640	1,092,595
1 to 2 years	609,036	1,163,640
2 to 3 years	—	609,036
	<b>1,772,676</b>	2,865,271
Less: Non-current assets due within one year	<b>1,163,640</b>	1,092,595
	<b>609,036</b>	1,772,676

# Notes to Financial Statements

31 December 2012

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

### 9. Investments in a jointly-controlled entity and associates

2012

Type of enterprises	Place of registration	Nature of business	Registered capital	Proportion of shareholding and votes		Total assets	Total liabilities	Total net assets	Revenue	Net profit/ (net loss)	
				Direct	Indirect						
Jointly-controlled entity											
Zhuzhou Shiling Transportation Equipment Company, Ltd.	Limited liability company	Zhuzhou	Manufacturing	USD 14,000,000	50%	—	414,884,907	75,078,557	339,806,350	526,849,670	51,029,114
Associates											
Siemens Traction Equipment Ltd., Zhuzhou	Limited liability company	Zhuzhou	Manufacturing	RMB 128,989,000	30%	—	610,141,706	373,470,906	236,670,800	694,083,572	94,998,664
Hunan CSR Webtec Railway Transportation Technology Co., Ltd.	Limited liability company	Changsha	Manufacturing	RMB 32,500,000	50%	—	33,730,931	7,385,555	26,345,376	—	(6,157,847)

2011

Type of enterprises	Place of registration	Nature of business	Registered capital	Proportion of shareholding and votes		Total assets	Total liabilities	Total net assets	Revenue	Net profit	
				Direct	Indirect						
Jointly-controlled entity											
Zhuzhou Shiling Transportation Equipment Company, Ltd.	Limited liability company	Zhuzhou	Manufacturing	USD 14,000,000	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	RMB 128,989,000	30%	—	673,736,206	503,458,329	170,277,877	582,860,197	39,784,540

# Notes to Financial Statements

31 December 2012

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

### 10. Long-term equity investments

2012

	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.	154,535,591	14,514,521	169,050,112	—	169,050,112	11,000,000
Associates						
Siemens Traction Equipment Ltd., Zhuzhou	47,918,177	24,885,488	72,803,665	—	72,803,665	30,182,757
Hunan CSR Webtec Railway Transportation Technology Co., Ltd.	—	13,171,076	13,171,076	—	13,171,076	—
	47,918,177	38,056,564	85,974,741	—	85,974,741	30,182,757
Cost method:						
Changchun Railway Vehicles Technology Development Co., Ltd.	400,000	—	400,000	—	400,000	—
	<u>202,853,768</u>	<u>52,571,085</u>	<u>255,424,853</u>	<u>—</u>	<u>255,424,853</u>	<u>41,182,757</u>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 10. Long-term equity investments (continued)

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 VehiclesTechnology Development Co., Ltd.	400,000	—	400,000	—	400,000	—
	<u>168,103,938</u>	<u>34,749,830</u>	<u>202,853,768</u>	<u>—</u>	<u>202,853,768</u>	<u>15,061,710</u>

# Notes to Financial Statements

31 December 2012

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

### 11. Fixed assets

#### 2012

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Cost:					
Buildings	876,582,715	73,909,976	—	1,013,866	951,506,557
Machinery	839,782,029	125,320,423	(24,626,406)	8,149,624	948,625,670
Vehicles	29,266,477	7,157,084	(1,352,185)	(470)	35,070,906
Office facilities and others	133,438,724	22,169,165	(4,355,101)	(2,822)	151,249,966
	<u>1,879,069,945</u>	<u>228,556,648</u>	<u>(30,333,692)</u>	<u>9,160,198</u>	<u>2,086,453,099</u>
Accumulated depreciation:					
Buildings	110,193,399	28,463,926	—	17,156	138,674,481
Machinery	271,330,678	76,129,594	(4,578,289)	3,086,004	345,967,987
Vehicles	13,189,162	4,721,918	(401,574)	(184)	17,509,322
Office facilities and others	69,970,580	18,971,772	(3,621,019)	(142)	85,321,191
	<u>464,683,819</u>	<u>128,287,210</u>	<u>(8,600,882)</u>	<u>3,102,834</u>	<u>587,472,981</u>
Carrying amount:					
Buildings	766,389,316	45,446,050	—	996,710	812,832,076
Machinery	568,451,351	49,190,829	(20,048,117)	5,063,620	602,657,683
Vehicles	16,077,315	2,435,166	(950,611)	(286)	17,561,584
Office facilities and others	63,468,144	3,197,393	(734,082)	(2,680)	65,928,775
	<u>1,414,386,126</u>	<u>100,269,438</u>	<u>(21,732,810)</u>	<u>6,057,364</u>	<u>1,498,980,118</u>
Impairment provision:					
Buildings	9,411,739	—	—	—	9,411,739
Machinery	36,396,528	—	—	—	36,396,528
Vehicles	—	—	—	—	—
Office facilities and others	885,228	—	—	—	885,228
	<u>46,693,495</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>46,693,495</u>
Net carrying amount:					
Buildings	756,977,577	45,446,050	—	996,710	803,420,337
Machinery	532,054,823	49,190,829	(20,048,117)	5,063,620	566,261,155
Vehicles	16,077,315	2,435,166	(950,611)	(286)	17,561,584
Office facilities and others	62,582,916	3,197,393	(734,082)	(2,680)	65,043,547
	<u>1,367,692,631</u>	<u>100,269,438</u>	<u>(21,732,810)</u>	<u>6,057,364</u>	<u>1,452,286,623</u>

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

### 11. Fixed assets (continued)

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
	<u>1,580,909,121</u>	<u>336,951,818</u>	<u>(27,219,157)</u>	<u>(11,571,837)</u>	<u>1,879,069,945</u>
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
	<u>354,601,871</u>	<u>118,171,301</u>	<u>(5,064,136)</u>	<u>(3,025,217)</u>	<u>464,683,819</u>
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
	<u>1,226,307,250</u>	<u>218,780,517</u>	<u>(22,155,021)</u>	<u>(8,546,620)</u>	<u>1,414,386,126</u>
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
	<u>26,028,522</u>	<u>20,736,118</u>	<u>(71,145)</u>	<u>—</u>	<u>46,693,495</u>
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
	<u>1,200,278,728</u>	<u>198,044,399</u>	<u>(22,083,876)</u>	<u>(8,546,620)</u>	<u>1,367,692,631</u>

# Notes to Financial Statements

31 December 2012

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

### 11. Fixed assets (continued)

The amount of depreciation provided in 2012 was RMB128,287,210 (2011: RMB118,171,301). In 2012, the cost of fixed assets transferred from construction in progress was RMB153,022,844 (2011: RMB238,245,157).

As at 31 December 2012, fixed assets held under operating leases are as follows:

	<b>Cost</b>	<b>Accumulated depreciation</b>	<b>Impairment provision</b>	<b>Net carrying amount</b>
Buildings	<b>63,542,683</b>	<b>7,957,779</b>	<b>—</b>	<b>55,584,904</b>

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

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

As at 31 December 2012, the title of buildings with a net carrying amount of RMB30,276,793 (31 December 2011: RMB27,093,551) was restricted, refer to Note V.17.

As at 31 December 2012, the Group was in the process of applying for the title certificates of certain buildings with an aggregate carrying amount of RMB60,744,983 (31 December 2011: RMB44,914,912). 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 2012.

# Notes to Financial Statements

31 December 2012

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

### 12. Intangible assets

2012

	Opening balance	Increase	Exchange realignment	Closing balance
Cost:				
Land use rights	168,579,796	7,570,693	1,621,515	177,772,004
Software licenses	49,844,836	4,278,321	—	54,123,157
Patents, licenses and technical know-how	196,793,958	8,246,947	1,166,158	206,207,063
	<u>415,218,590</u>	<u>20,095,961</u>	<u>2,787,673</u>	<u>438,102,224</u>
Accumulated amortisation:				
Land use rights	14,931,029	3,235,220	—	18,166,249
Software licenses	30,355,517	7,941,622	—	38,297,139
Patents, licenses and technical know-how	37,990,654	7,050,683	265,323	45,306,660
	<u>83,277,200</u>	<u>18,227,525</u>	<u>265,323</u>	<u>101,770,048</u>
Carrying amount:				
Land use rights	153,648,767	4,335,473	1,621,515	159,605,755
Software licenses	19,489,319	(3,663,301)	—	15,826,018
Patents, licenses and technical know-how	158,803,304	1,196,264	900,835	160,900,403
	<u>331,941,390</u>	<u>1,868,436</u>	<u>2,522,350</u>	<u>336,332,176</u>
Impairment provision:				
Land use rights	—	—	—	—
Software licenses	—	—	—	—
Patents, licenses and technical know-how	131,627,620	—	—	131,627,620
	<u>131,627,620</u>	<u>—</u>	<u>—</u>	<u>131,627,620</u>
Net carrying amount:				
Land use rights	153,648,767	4,335,473	1,621,515	159,605,755
Software licenses	19,489,319	(3,663,301)	—	15,826,018
Patents, licenses and technical know-how	27,175,684	1,196,264	900,835	29,272,783
	<u>200,313,770</u>	<u>1,868,436</u>	<u>2,522,350</u>	<u>204,704,556</u>



# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 12. Intangible assets (continued)

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
	<u>382,556,368</u>	<u>36,806,495</u>	<u>(2,489,031)</u>	<u>(1,655,242)</u>	<u>415,218,590</u>
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
	<u>68,597,064</u>	<u>16,737,483</u>	<u>(1,903,197)</u>	<u>(154,150)</u>	<u>83,277,200</u>
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
	<u>313,959,304</u>	<u>20,069,012</u>	<u>(585,834)</u>	<u>(1,501,092)</u>	<u>331,941,390</u>
Impairment provision:					
Land use rights	—	—	—	—	—
Software licenses	—	—	—	—	—
Patents, licenses and technical know-how	131,627,620	—	—	—	131,627,620
	<u>131,627,620</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>131,627,620</u>
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
	<u>182,331,684</u>	<u>20,069,012</u>	<u>(585,834)</u>	<u>(1,501,092)</u>	<u>200,313,770</u>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 12. Intangible assets (continued)

The amount of amortisation in 2012 was RMB18,227,525 (2011: RMB16,737,483).

As at 31 December 2012, the title of intangible assets with a net carrying amount of RMB17,898,909 (31 December 2011: Nil) 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 of its land use rights in Mainland China with an aggregate carrying amount of RMB10,000,000. The Company's management is of the view that the Group is entitled to lawfully and validly occupy and use the above mentioned land use rights, 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:

#### 2012

	Opening balance	Increase	Decrease		Closing balance
			Recognised in profit or loss	Recognised as an intangible asset	
Development expenses	39,322,801	20,780,103	—	8,246,947	51,855,957

#### 2011

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

As at 31 December 2012 intangible assets arising from internal development accounted for 9.27% (31 December 2011: 7.60%) of the year-end net carrying amount of intangible assets.

# Notes to Financial Statements

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

### 13. Goodwill

2012

	Opening balance	Exchange realignment	Closing balance	Impairment provision
Goodwill	<u>58,694,931</u>	<u>2,081,255</u>	<u>60,776,186</u>	<u>—</u>

2011

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

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% (2011: 15%), and cash flows beyond the five-year period were extrapolated using a growth rate of 2% (2011: 2%).

Assumptions were used for the calculation of the present values of expected future cash flows of the asset groups as of 31 December 2012 and 31 December 2011. 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 the 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.

# Notes to Financial Statements

31 December 2012

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## 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:

	<b>31 December 2012</b>	31 December 2011
Provision for impairment of assets	<b>22,608,189</b>	6,812,875
Provision for product quality warranties	<b>32,612,506</b>	30,543,197
Government grants	<b>31,558,446</b>	22,361,477
Payroll payable	<b>6,000,000</b>	—
	<b><u>92,779,141</u></b>	<b><u>59,717,549</u></b>

Deferred tax liabilities:

	<b>31 December 2012</b>	31 December 2011
Fair value adjustments arising from acquisition of subsidiaries	<b>4,028,418</b>	4,981,429
Depreciation differences arising from different depreciation terms in tax laws and accounting	<b>12,256,748</b>	10,744,052
	<b><u>16,285,166</u></b>	<b><u>15,725,481</u></b>

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

	<b>31 December 2012</b>	31 December 2011
Deductible loss	<b>69,413,713</b>	52,886,810
Deductible temporary differences	<b>31,784,578</b>	37,452,867
	<b><u>101,198,291</u></b>	<b><u>90,339,677</u></b>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 14. Deferred tax assets/liabilities (continued)

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

	<b>31 December 2012</b>	31 December 2011
2012	—	2,288,491
2013	<b>5,684,466</b>	5,684,466
2014	<b>7,349,713</b>	7,679,935
2015	<b>14,172,063</b>	14,549,862
2016	<b>18,015,639</b>	22,684,056
2017	<b>24,191,832</b>	—
	<b>69,413,713</b>	52,886,810

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

	<b>31 December 2012</b>	31 December 2011
Deductible temporary differences:		
Provision for impairment of assets	<b>150,721,258</b>	45,419,162
Provision for product quality warranties	<b>217,416,706</b>	203,621,314
Government grants	<b>203,975,375</b>	142,524,303
Payroll payable	<b>40,000,000</b>	—
	<b>612,113,339</b>	391,564,779
Taxable temporary differences:		
Fair value adjustments arising from acquisition of subsidiaries	<b>16,442,521</b>	19,925,715
Depreciation differences arising from different depreciation terms in tax laws and accounting	<b>50,027,544</b>	42,976,207
	<b>66,470,065</b>	62,901,922

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 15. Other non-current assets

	31 December 2012	31 December 2011
Prepayments for acquisition of land use rights	57,824,581	38,268,244
Prepayments for construction in progress	10,851,276	8,595,484
Prepayments for purchase of machinery and equipment	11,053,621	3,461,405
	<u>79,729,478</u>	<u>50,325,133</u>

### 16. Provision for impairment of assets

2012

	Opening balance	Increase		Decrease		Exchange realignment	Closing balance
		Provision	Transfer	Reversal	Write-off		
Provision for bad debt	40,909,920	8,894,774	—	(3,484,010)	(583,204)	12,246	45,749,726
Provision for impairment of inventories	142,007,574	39,161,631	—	(33,388,504)	(7,790,308)	1,011,428	141,001,821
Provision for impairment of fixed assets	46,693,495	—	—	—	—	—	46,693,495
Provision for impairment of intangible assets	131,627,620	—	—	—	—	—	131,627,620
	<u>361,238,609</u>	<u>48,056,405</u>	<u>—</u>	<u>(36,872,514)</u>	<u>(8,373,512)</u>	<u>1,023,674</u>	<u>365,072,662</u>

2011

	Opening balance	Increase		Decrease		Exchange realignment	Closing balance
		Provision	Transfer	Reversal	Write-off		
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
	<u>292,645,987</u>	<u>91,436,786</u>	<u>1,017,130</u>	<u>(22,589,151)</u>	<u>(240,259)</u>	<u>(1,031,884)</u>	<u>361,238,609</u>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 17. Assets with restrictions on title

2012

	Opening balance	Increase	Decrease	Closing balance	Notes
Pledged assets					
Cash and bank balances	104,002,637	28,386,152	104,002,637	28,386,152	Note 1
Bills receivable	198,894,960	—	198,894,960	—	Note 2
Fixed assets	27,093,551	3,183,242	—	30,276,793	Note 3
Intangible assets	—	17,898,909	—	17,898,909	Note 4
	<u>329,991,148</u>	<u>49,468,303</u>	<u>302,897,597</u>	<u>76,561,854</u>	

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
	<u>188,950,804</u>	<u>329,991,148</u>	<u>188,950,804</u>	<u>329,991,148</u>	

The Group's assets with restrictions on title were as follows:

Note 1: The Group pledged its cash and bank balances of RMB21,421,004 (31 December 2011: RMB97,033,368) as a security deposit for issuance of bank acceptance bills; the Group pledged its cash and bank balances of RMB6,965,148 (31 December 2011: RMB4,864,016) as a security deposit for obtaining a bank letter of guarantee; as at 31 December 2011, the Group pledged its cash and bank balances of RMB2,105,253 as a security deposit for obtaining a letter of credit from a bank.

Note 2: As at 31 December 2011, the Group pledged its bills receivable of RMB198,894,960 for issuance of bank acceptance bills.

Note 3: The Group pledged its fixed assets with a net carrying amount of RMB30,276,793 (31 December 2011: RMB27,093,551) to obtain bank borrowings.

Note 4: The Group pledged its intangible assets with a net carrying amount of RMB17,898,909 (31 December 2011: Nil) to obtain bank borrowings.

### 18. Short-term borrowings

	31 December 2012	31 December 2011
Credit loans	<u>—</u>	<u>139,000,000</u>

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

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 19. Short-term bonds payable

2012

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

2011

	Opening balance	Increase	Decrease	Closing balance
Short-term bonds	500,000,000	500,000,000	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. The Company repaid in full the RMB500 million short-term bonds on 16 June 2012.

### 20. Bills payable

	31 December 2012	31 December 2011
Bank acceptance bills	713,768,911	448,604,661

Bills with an amount of RMB713,768,911(31 December 2011: RMB448,604,661) 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.

### 21. Trade payables

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

	31 December 2012	31 December 2011
Within 3 months	914,106,974	606,436,051
3 months to 1 year	204,113,602	173,605,093
1 to 2 years	139,793,516	116,837,628
2 to 3 years	7,194,408	7,201,945
Over 3 years	8,439,873	2,472,930
	<b>1,273,648,373</b>	<b>906,553,647</b>

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



# Notes to Financial Statements

31 December 2012

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

### 22. Receipts in advance

	<b>31 December 2012</b>	31 December 2011
Within 1 year	<b>271,935,926</b>	340,997,056
1 to 2 years	<b>18,151,835</b>	7,298,839
2 to 3 years	<b>632,100</b>	1,251,553
Over 3 years	<b>1,258,876</b>	1,616,833
	<b>291,978,737</b>	351,164,281

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.

### 23. Employee benefits payable

2012

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Salaries, bonuses, allowances and subsidies	2,028,323	532,326,993	494,432,823	77,507	40,000,000
Staff welfare	—	40,080,826	40,080,826	—	—
Social security	4,982,651	123,440,691	119,062,498	6,401	9,367,245
Including: Basic medical insurance	106,809	20,658,613	19,822,708	—	942,714
Supplementary medical insurance	205,391	1,987,435	570,301	—	1,622,525
Basic pension insurance	207,222	59,817,310	59,810,701	6,401	220,232
Annuity	4,252,483	29,295,391	27,060,735	—	6,487,139
Unemployment insurance	186,396	5,655,213	5,772,855	—	68,754
Work injury insurance	4,626	4,140,688	4,142,587	—	2,727
Maternity insurance	19,724	1,886,041	1,882,611	—	23,154
Housing fund	31,717	35,057,964	35,034,181	—	55,500
Union fund and employee education fund	4,528,979	19,404,909	14,263,289	—	9,670,599
Others	3,818,852	9,728,690	8,831,548	102,825	4,818,819
	<b>15,390,522</b>	<b>760,040,073</b>	<b>711,705,165</b>	<b>186,733</b>	<b>63,912,163</b>

# Notes to Financial Statements

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Renminbi Yuan

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

### 23. Employee benefits payable (continued)

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
	<u>7,680,029</u>	<u>657,982,269</u>	<u>649,916,953</u>	<u>(354,823)</u>	<u>15,390,522</u>

As at 31 December 2012, there were no employee benefits payable in arrears (31 December 2011: Nil).

### 24. Taxes payable

	31 December 2012	31 December 2011
Corporate income tax	177,797,661	186,065,253
Value added tax	145,988,964	79,259,339
City maintenance and construction and education surcharge	16,693,238	6,971,959
Individual income tax	14,855,801	11,058,496
Others	858,500	3,229,119
	<u>356,194,164</u>	<u>286,584,166</u>

### 25. Interest payable

	31 December 2012	31 December 2011
Interest on short-term bonds	—	12,250,820
Interest on borrowings	—	218,149
	<u>—</u>	<u>12,468,969</u>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 26. Other payables

	<b>31 December 2012</b>	31 December 2011
Within 1 year	<b>88,580,429</b>	113,951,595
1 to 2 years	<b>26,224,786</b>	16,824,580
2 to 3 years	<b>13,384,460</b>	1,578,478
Over 3 years	<b>1,659,064</b>	2,244,630
	<b>129,848,739</b>	134,599,283

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

### 27. Non-current liabilities due within one year

	Note V	<b>31 December 2012</b>	31 December 2011
Long-term borrowings due within one year	28	<b>41,370,553</b>	3,175,968
Provisions due within one year	29	<b>86,102,409</b>	69,481,125
Deferred income due within one year	30	<b>74,747,912</b>	52,601,228
		<b>202,220,874</b>	125,258,321

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

	<b>31 December 2012</b>	31 December 2011
Mortgaged loans	<b>10,881,114</b>	3,175,968
Other loans (Note V. 28. note)	<b>30,489,439</b>	—
	<b>41,370,553</b>	3,175,968

### 28. Long-term borrowings

	<b>31 December 2012</b>	31 December 2011
Mortgaged loans	<b>39,218,029</b>	30,922,613
Other loans (Note)	<b>30,489,439</b>	29,328,631
	<b>69,707,468</b>	60,251,244
Less: Long-term borrowings due within one year	<b>41,370,553</b>	3,175,968
	<b>28,336,915</b>	57,075,276

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 28. Long-term borrowings (continued)

Maturity analysis

	<b>31 December 2012</b>	31 December 2011
Due within 1 year	<b>41,370,553</b>	3,175,968
Due within 2 years	<b>10,523,232</b>	37,285,947
Due within 3 to 5 years	<b>17,813,683</b>	19,789,329
	<b><u>69,707,468</u></b>	<u>60,251,244</u>

Note: Pursuant to the relevant borrowing agreement, the other loans are secured by floating charges over certain assets. The carrying amounts of such assets as at 31 December 2012 and 31 December 2011 are:

	<b>31 December 2012</b>	31 December 2011
Cash and bank balances	<b>13,941,107</b>	18,709,776
Trade receivables	<b>44,360,022</b>	40,919,784
Other receivables	<b>451,261</b>	1,499,511
Prepayments	<b>1,165,286</b>	1,469,110
Inventories	<b>69,211,819</b>	67,280,818
Other current assets	<b>785,327</b>	1,842,814
Fixed assets	<b>156,034,576</b>	132,014,916
Construction in progress	<b>8,759,575</b>	13,797,557
Intangible assets	<b>—</b>	16,277,390
	<b><u>294,708,973</u></b>	<u>293,811,676</u>

### 29. Provisions

2012

	Opening balance	Increase	Decrease	Closing balance
Provision for product quality warranties	<b><u>203,628,246</u></b>	<b><u>151,402,945</u></b>	<b><u>137,601,152</u></b>	<b>217,430,039</b>
Less: Provisions due within one year				<b><u>86,102,409</u></b>
				<b><u>131,327,630</u></b>

2011

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

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 30. Other non-current liabilities

	<b>31 December 2012</b>	31 December 2011
Deferred income	<b>129,227,463</b>	89,923,075

Details of deferred income are presented as follows:

	<b>31 December 2012</b>	31 December 2011
Government grants related to assets	<b>131,734,375</b>	92,429,987
Government grants related to income	<b>72,241,000</b>	50,094,316
	<b>203,975,375</b>	142,524,303
Less: Deferred income due within one year	<b>74,747,912</b>	52,601,228
	<b>129,227,463</b>	89,923,075

### 31. Share capital

	<b>2012 and 2011</b>	
	<b>Opening and closing balance</b>	
	<b>Number of shares</b>	<b>Percentage (%)</b>
Registered, issued and paid unrestricted shares:		
State-owned legal person shares	628,147,237	57.94
National Council for Social Security Fund	41,464,400	3.82
Overseas listed foreign shares	414,644,000	38.24
	<b>1,084,255,637</b>	<b>100.00</b>

### 32. Capital reserve

	<b>2012 and 2011</b>	
	<b>Opening and closing balance</b>	
Share premium		<b>1,693,508,949</b>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 33. Surplus reserve

2012

	Opening balance	Increase	Closing balance
Statutory surplus reserve	<u>350,134,445</u>	<u>118,928,497</u>	<u>469,062,942</u>

2011

	Opening balance	Increase	Closing balance
Statutory surplus reserve	<u>227,060,371</u>	<u>123,074,074</u>	<u>350,134,445</u>

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.

### 34. Retained earnings

	2012	2011
Retained earnings at the end of last year	<b>2,218,523,143</b>	1,487,852,295
Add: Net profit attributable to shareholders of the Parent	<b>1,221,110,195</b>	1,184,442,891
Less: Appropriation to statutory surplus reserve (Note 1)	<b>118,928,497</b>	123,074,074
Cash dividends paid (Note 2)	<b>368,646,917</b>	330,697,969
Retained earnings at the end of the year	<u><b>2,952,057,924</b></u>	<u>2,218,523,143</u>

Note 1: In 2012, included in the retained earnings under the Group's consolidated statement of changes in equity, the appropriation to surplus reserve of subsidiaries for the current year which attributable to shareholders of the parent is RMB2,747,757 (2011:RMB3,705,025).

Note 2: Pursuant to the Annual General Meeting held on 8 June 2012, a final dividend of RMB0.340 (2011: RMB0.305) was paid on each of the 1,084,255,637 shares (2011:1,084,255,637 shares) in issue, amounting to a total cash dividend of RMB368,646,917 (2011: RMB330,697,969). The dividend was paid during 2012.

Pursuant to the board of directors meeting held on 28 March 2013, a proposed final dividend of RMB0.350 was paid on each of the 1,084,255,637 shares in issue, amounting to a total cash dividend of RMB379,489,473. The above proposal needs be approved at the Annual General Meeting. Before the approval of the general meeting of shareholders, it will not form part of the company liabilities, therefore it was not reflected in the current financial statements.

# Notes to Financial Statements

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Renminbi Yuan

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

### 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:

	2012	2011
Revenue from principal operations	7,145,948,132	7,073,432,172
Other operating income	70,550,046	51,342,802
	<b>7,216,498,178</b>	<b>7,124,774,974</b>

Cost of sales is stated as follows:

	2012	2011
Cost of sales from principal operations	4,742,644,192	4,564,397,550
Other operating costs	38,364,354	34,295,550
	<b>4,781,008,546</b>	<b>4,598,693,100</b>

Details of revenue are listed as follows:

	2012	2011
Sale of goods	7,187,527,875	7,108,782,733
Rendering of services	6,344,770	330,810
Rental income	14,071,560	5,936,523
Others	8,553,973	9,724,908
	<b>7,216,498,178</b>	<b>7,124,774,974</b>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 36. Business taxes and surcharges

	2012	2011
City maintenance and construction surtax	36,086,820	26,087,779
Education surcharge	25,912,661	18,729,069
Others	540,549	875,078
	<u>62,540,030</u>	<u>45,691,926</u>

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

### 37. Administrative expenses

Administrative expenses for the year 2012 included auditors' remuneration of RMB3,000,000 (2011: RMB3,990,000).

### 38. Finance costs

	2012	2011
Interest expenses:		
— Interest on bank loans due for full repayment within 5 years	4,572,947	11,319,861
— Interest on short-term bonds	11,381,031	21,304,987
	<u>15,953,978</u>	<u>32,624,848</u>
Less: Interest income	11,281,079	8,994,322
Exchange gains	(20,583,407)	(2,305,442)
Others	6,607,373	6,017,113
	<u>(9,303,135)</u>	<u>27,342,197</u>

### 39. Asset impairment losses

	2012	2011
Bad debt loss	5,410,764	2,890,215
Impairment loss of inventories	5,773,127	45,221,302
Impairment loss of fixed assets	—	20,736,118
	<u>11,183,891</u>	<u>68,847,635</u>



# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 40. Investment income

	2012	2011
Income from non-listed investments:		
Long-term equity investments income under the equity method	77,503,842	49,811,540
Income from entrusted loans	9,410,938	—
Bank financial product income	11,759,950	1,278,967
	<u>98,674,730</u>	<u>51,090,507</u>

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

Investees	2012	2011	Reason for change
Siemens Traction Equipment Ltd. Zhuzhou	55,068,245	6,967,751	Profit increase
Zhuzhou Shiling Transportation Equipment Company, Ltd.	25,514,521	42,843,789	Profit decrease
Hunan CSR Webtec Railway Transportation Technology Co., Ltd.	(3,078,924)	—	Operating loss
	<u>77,503,842</u>	<u>49,811,540</u>	

As at 31 December 2012, the repatriation of the Group's investments income was not subject to significant restriction.

### 41. Non-operating income

	2012	2011
Gain on disposal of non-current assets	240,284	3,427,370
Refunds of value added tax	89,100,535	72,727,906
Government grants	25,654,127	33,463,646
Unsettled payment	996,636	1,422,134
Penalty income and default compensation income	3,718,457	90,904
Others	2,700,615	1,021,580
	<u>122,410,654</u>	<u>112,153,540</u>

# Notes to Financial Statements

31 December 2012

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

### 41. Non-operating income (continued)

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

	2012	2011
Technology projects funding	9,460,000	20,055,753
Others	16,194,127	13,407,893
	<u>25,654,127</u>	<u>33,463,646</u>

### 42. Non-operating expenses

	2012	2011
Loss on disposal of non-current assets	605,759	904,403
Loss on penalties and compensation	31,328	265,387
Others	519,042	166,267
	<u>1,156,129</u>	<u>1,336,057</u>

### 43. Income tax expense

	2012	2011
Current income tax expense		
— Mainland China	211,392,485	207,131,206
— Other countries and regions	5,732	7,423
	<u>211,398,217</u>	<u>207,138,629</u>
Deferred tax expense	(33,279,100)	(13,252,704)
	<u>178,119,117</u>	<u>193,885,925</u>

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

# Notes to Financial Statements

31 December 2012

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

### 43. Income tax expense (continued)

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

	2012	2011
Total profit	<b>1,400,629,324</b>	1,380,922,211
Income tax expense at statutory tax rate of 25% (note)	<b>350,157,331</b>	345,230,553
Effect of different income tax rates for overseas entities	<b>(98,751)</b>	92,757
Tax exemption	<b>(142,374,152)</b>	(139,601,672)
Profits and losses attributable to associates and a jointly-controlled entity	<b>(11,625,576)</b>	(7,471,731)
Income not subject to tax	<b>(795,089)</b>	(11,326,065)
Expenses not deductible for tax	<b>12,448,214</b>	22,591,015
Income tax benefits on research and development expenditure	<b>(20,265,085)</b>	(18,689,679)
Tax losses not recognised	<b>6,081,320</b>	5,732,406
Utilisation of tax losses carried forward in previous periods	<b>(1,864,246)</b>	(132,964)
Others	<b>(13,544,849)</b>	(2,538,695)
Tax expense at the Group's effective tax rate	<b>178,119,117</b>	193,885,925

Note: 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.

### 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:

	2012	2011
Earnings		
Net profit for the year attributable to ordinary shareholders of the Company	<b>1,221,110,195</b>	1,184,442,891
Shares		
Weighted average number of ordinary shares in issue of the Company	<b>1,084,255,637</b>	1,084,255,637
Basic earnings per share (Yuan/share)	<b>1.13</b>	1.09
Diluted earnings per share (Yuan/share)	<b>1.13</b>	1.09

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

# Notes to Financial Statements

31 December 2012

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

### 45. Other comprehensive income/(loss)

	2012	2011
Exchange differences on translation of foreign operations	<b>11,414,278</b>	(12,416,819)

### 46. Supplementary information to cash flow statement

#### (1) Supplementary information to cash flow statement

	2012	2011
Adjustment of net profit to cash flows from operating activities:		
Net profit	<b>1,222,510,207</b>	1,187,036,286
Add: Provision for impairment of assets	<b>11,183,891</b>	68,847,635
Depreciation	<b>128,287,210</b>	118,171,301
Amortisation of intangible assets	<b>18,227,525</b>	16,737,483
Losses/(Gains) from disposal of fixed assets, intangible assets and other long-term assets	<b>365,475</b>	(2,522,967)
Finance costs	<b>15,953,978</b>	34,624,848
Investment income	<b>(98,674,730)</b>	(51,090,507)
Increase in deferred tax assets	<b>(33,061,592)</b>	(16,039,948)
Increase in deferred tax liabilities	<b>559,685</b>	2,011,386
Decrease/(Increase) in inventories	<b>551,877,222</b>	(122,337,960)
Increase in operating receivables	<b>(1,290,249,631)</b>	(488,190,124)
Increase in operating payables	<b>719,709,358</b>	494,523,266
Net cash flows from operating activities	<b>1,246,688,598</b>	1,241,770,699

#### (2) Cash and cash equivalents

	2012	2011
Cash		
Including: Cash on hand	<b>17,366</b>	17,594
Bank deposits on demand	<b>2,297,269,420</b>	2,053,700,796
Closing balance of cash and cash equivalents	<b>2,297,286,786</b>	2,053,718,390

# Notes to Financial Statements

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## 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	2,982,900,000	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 2012, CSR Corporation Limited increased the capital contribution amount by RMB546,190,000 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 RMB2,982,900,000.

### 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 2012	31 December 2011
Non-listed shares, at cost	<u>736,685,311</u>	<u>701,773,274</u>

The amounts of receivables from and payables to subsidiaries in the current assets and current liabilities of the Company are RMB423,997,783 (31 December 2011: RMB319,115,173) and RMB129,449,130 (31 December 2011: RMB89,758,946), 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.

### 3. Jointly-controlled entities and associates

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



# Notes to Financial Statements

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## VI. Related party relationships and transactions (continued)

### 5. Major transactions between the Group and its related parties

#### (1) Sales of goods to related parties

	2012	2011
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	1,890,577,717	2,585,787,603
CSR Zhuzhou Electric Locomotive Co., Ltd.	948,108,205	1,473,096,827
CSR Qishuyan Locomotive Co., Ltd.	322,533,099	359,975,601
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	20,427,350	—
CSR Ziyang Locomotive Co., Ltd.	50,778,668	39,142,666
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	65,812,504	34,816,031
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	133,131,770	28,097,367
Hunan CSR Times Electric Vehicle Co., Ltd.	17,249,487	19,413,203
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	38,779,854	17,179,726
Shijiazhuang King Transportation Equipment Co., Ltd.	8,559,985	10,989,573
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	13,708,767	5,949,053
Beijing North Gofront Science Business Co., Ltd.	6,942,855	4,960,680
Guangzhou Rapid Transit Vehicles Equipment Co., Ltd.	—	4,913,675
CSR Zhuzhou Electric Co., Ltd.	175,940	1,515,635
CSR Luoyang Locomotive Co., Ltd.	6,066,667	931,205
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	9,402	494,962
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	666,667	602,480
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	—	34,450
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	342,771	729,516
Zhuzhou Times New Material Technology Co., Ltd.	—	698,200
Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.	—	28,034
Nanjing CSR Haida Railway Service Co., Ltd.	7,692,308	—
Qingdao Sifang Coach Repair Co., Ltd.	232,812	146,201
Bombardier Sifang (Qingdao) Transportation Ltd.	—	157,186
CSR Sifang Rolling Stock Co., Ltd.	650,424	204,492
CSR Shijiazhuang Rolling Stock Co., Ltd.	10,540,427	—
CSR Luoyang Locomotive Works	—	563,015
Zhuzhou Electromechanical Technology Co., Ltd.	5,500,337	—
Guangzhou Electrical Locomotive Co., Ltd.	50,920,732	—
Kunming CSR Urban Rail Vehicle Co., Ltd.	8,587	—
Changzhou Ruitai Engineering Machinery Co., Ltd.	24,284,359	—
Shiling	367,661,277	—
	<b>3,991,362,971</b>	<b>4,590,427,381</b>

## 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

	2012	2011
Shiling	481,679,291	380,967,196
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	116,454,185	259,829
CSR Qishuyan Locomotive Co., Ltd.	92,747,722	224,358,974
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	47,555,585	86,458,553
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	73,965,500	74,012,087
CSR Zhuzhou Electric Co., Ltd.	86,479,016	57,208,352
CSR Zhuzhou Electric Locomotive Co., Ltd.	14,636,488	50,213,974
Changzhou Ruiyang Transmission Technology Co., Ltd.	51,139,871	34,866,325
Changzhou Ruitai Engineering Machinery Co., Ltd.	27,037,949	—
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	57,877,113	31,509,511
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	29,348,173	16,385,331
Zhuzhou Times New Material Technology Co., Ltd.	3,418,909	11,232,412
Beijing CSR Electric Sales Co., Ltd.	—	4,128,205
Hunan CSR Times Electric Vehicle Co., Ltd.	1,686,748	2,796,529
Zhuzhou Times Electric Insulation Co., Ltd.	10,346,621	1,593,410
CSR Sifang Rolling Stock Co., Ltd.	56,410	1,497,436
Zhuzhou Electromechanical Technology Co., Ltd.	120,360,478	—
CSR Shijiazhuang Rolling Stock Co., Ltd.	2,706	—
Shijiazhuang King Transportation Equipment Co., Ltd.	383,333	339,316
Zhuzhou Jiufang Braking Equipment Co., Ltd.	1,284,701	—
Xiangyang CSR Electric Machinery Co., Ltd.	18,242,222	—
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	30,699	—
CSR Luoyang Locomotive Co., Ltd.	3,626,239	184,800
CSR Zhuzhou Electric Locomotive Works	1,244,444	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	—	63,872
	<b>1,239,604,403</b>	<b>978,076,112</b>



# Notes to Financial Statements

31 December 2012

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## VI. Related party relationships and transactions (continued)

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

#### (3) Sales of electricity to related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	267,150	122,054
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	841,592	825,072
Zhuzhou Siemens	688,102	599,130
	<u>1,796,844</u>	<u>1,546,256</u>

#### (4) Purchases of electricity from related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Co., Ltd.	84,278	—
Zhuzhou Electromechanical Technology Co., Ltd.	21,940	—
	<u>106,218</u>	<u>—</u>

#### (5) Sales of fixed assets to related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	41,750	—
	<u>41,750</u>	<u>—</u>

#### (6) Purchases of fixed assets from related parties

	2012	2011
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	868,632	—
	<u>868,632</u>	<u>—</u>

#### (7) Purchases of intangible assets from related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	430,560	—
	<u>430,560</u>	<u>—</u>

# Notes to Financial Statements

31 December 2012

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## VI. Related party relationships and transactions (continued)

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

#### (8) Related party lease

Income from assets leased to related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	1,947,928	1,391,522
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	350,000	350,000
Zhuzhou Siemens	6,132,438	1,921,539
	<u>8,430,366</u>	<u>3,663,061</u>

Expenses incurred from assets leased by related parties

	2012	2011
Zhuzhou Electric Vehicle Co., Ltd.	306,100	—
CSR Zhuzhou Electric Locomotive Works	244,332	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	888,057	652,125
	<u>1,438,489</u>	<u>652,125</u>

# Notes to Financial Statements

31 December 2012

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## VI. Related party relationships and transactions (continued)

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

#### (9) Technical service income from related parties

	2012	2011
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	6,701,000	
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	330,120	—
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	150,400	—
CSR Zhuzhou Electric Locomotive Co., Ltd.	254,000	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	562,350	—
CSR Zhuzhou Electric Co., Ltd.	361,200	—
CSR Ziyang Locomotive Co., Ltd.	70,000	—
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	72,200	—
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	31,890	—
Zhuzhou Electromechanical Technology Co., Ltd.	171,150	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	374,260	—
Zhuzhou Times New Material Technology Co., Ltd.	1,041,130	—
Hunan CSR Times Electric Vehicle Co., Ltd.	772,510	—
Xiangyang CSR Electric Machinery Co., Ltd.	262,680	—
Zhuzhou Electric Vehicle Co., Ltd.	36,755	—
	<u>11,191,645</u>	<u>—</u>

#### (10) Technical service fee paid to related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Co., Ltd.	615,000	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	35,892,454	—
	<u>36,507,454</u>	<u>—</u>

#### (11) Remuneration of key management

	2012	2011
Remuneration of key management	<u>3,756,587</u>	<u>3,267,969</u>

Note: The terms of the above sales and purchase transactions, sales and purchase of fixed assets, service transactions and lease transactions with related parties were agreed by both parties.

# Notes to Financial Statements

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## VI. Related party relationships and transactions (continued)

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

#### (12) 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

	2013
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	296,108,570
CSR Zhuzhou Electric Locomotive Co., Ltd.	68,376,068
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	53,836,750
Shijiazhuang King Transportation Equipment Co., Ltd.	3,476,068
CSR Ziyang Locomotive Co., Ltd.	219,744
	<hr/>
	422,017,200

#### Purchases of goods from related parties

	2013
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	15,975,481
Changzhou Ruiyang Transmission Technology Co., Ltd.	12,156,709
CSR Zhuzhou Electric Co., Ltd.	5,858,084
CSR Qishuyan Locomotive Co., Ltd.	931,778
CSR Zhuzhou Electric Locomotive Co., Ltd.	622,222
Zhuzhou Jiufang Braking Equipment Co., Ltd.	2,521
	<hr/>
	35,546,795

# Notes to Financial Statements

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## VI. Related party relationships and transactions (continued)

### 6. Amounts due from and due to related parties

	31 December 2012	31 December 2011
<b>Trade receivables:</b>		
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	591,077,508	334,993,249
CSR Zhuzhou Electric Locomotive Co., Ltd.	523,886,679	27,231,380
Beijing North Gofront Science Business Co., Ltd.	636,549	1,116,884
CSR Zhuzhou Electric Co., Ltd.	—	498,614
CSR Ziyang Locomotive Co., Ltd.	14,952,711	17,061,819
CSR Qishuyan Locomotive Co., Ltd.	73,832,971	14,434,745
CSR Sifang Rolling Stock Co., Ltd.	311,894	197,904
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	55,580,532	11,059,375
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	417,066	1,443,750
CSR Luoyang Locomotive Co., Ltd.	3,188,000	418,508
Shijiazhuang King Transportation Equipment Co., Ltd.	4,776,805	2,958,585
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	43,856,997	15,813,310
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	1,110,120	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	33,804,230	148,000
Qingdao Sifang Coach Repair Co., Ltd.	301,845	47,710
Bombardier Sifang (Qingdao) Transportation Ltd.	—	60,000
CSR Luoyang Locomotive Works	—	16,557
Hunan CSR Times Electric Vehicle Co., Ltd.	5,117,768	115,743
Guangzhou Rapid Transit Vehicles Equipment Co., Ltd.	577,900	1,374,500
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	31,890	—
Guangzhou Electrical Locomotive Co., Ltd.	41,650,000	—
Shiling	54,927,684	—
	<b>1,450,039,149</b>	<b>428,990,633</b>

# Notes to Financial Statements

31 December 2012

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## VI. Related party relationships and transactions (continued)

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

	31 December 2012	31 December 2011
<b>Bills receivable:</b>		
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	298,900,000	380,000,000
CSR Zhuzhou Electric Locomotive Co., Ltd.	90,000,000	205,000,000
CSR Qishuyan Locomotive Co., Ltd.	50,000,000	—
CSR Ziyang Locomotive Co., Ltd.	14,200,000	4,550,000
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	50,330,000	1,300,000
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	650,000	2,760,000
CSR Luoyang Locomotive Co., Ltd.	700,000	1,750,000
Hunan CSR Times Electric Vehicle Co., Ltd.	360,000	600,000
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	—	400,000
Shijiazhuang King Transportation Equipment Co., Ltd.	2,900,000	4,000,000
Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.	—	2,500,000
Bombardier Sifang (Qingdao) Transportation Ltd.	4,000,000	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	776,077	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	24,311,639	342,373
	<b>537,127,716</b>	<b>603,202,373</b>
<b>Prepayments:</b>		
CSR Corporation Limited	118,100	118,100
CSR Qishuyan Locomotive Co., Ltd.	12,000	12,000
CSR Zhuzhou Electric Locomotive Co., Ltd.	118,044	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	—	100,000
	<b>248,144</b>	<b>230,100</b>

# Notes to Financial Statements

31 December 2012

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## VI. Related party relationships and transactions (continued)

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

#### Other receivables:

	31 December 2012	31 December 2011
CSR Qishuyan Locomotive Co., Ltd.	—	50,000
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	<b>1,654,912</b>	3,191,424
CSR Zhuzhou Electric Locomotive Works	—	1,500
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	—	80,087
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	<b>34,000</b>	40,000
CSR Zhuzhou Electric Locomotive Co., Ltd.	—	1,120
Zhuzhou Siemens	<b>35,109</b>	25,349
	<b>1,724,021</b>	3,389,480

#### Trade payables:

	31 December 2012	31 December 2011
CSR Zhuzhou Electric Co., Ltd.	<b>95,448,062</b>	7,365,497
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	<b>52,374,903</b>	—
Shiling	<b>45,097,920</b>	18,214,573
Zhuzhou Electromechanical Technology Co., Ltd.	<b>42,869,098</b>	—
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	<b>45,323</b>	633,459
Shijiazhuang King Transportation Equipment Co., Ltd.	<b>784,688</b>	391,188
CSR Zhuzhou Electric Locomotive Co., Ltd.	<b>133,334</b>	10,000
CSR Luoyang Locomotive Co., Ltd.	<b>2,874,023</b>	184,800
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	—	729,009
CSR Sifang Rolling Stock Co., Ltd.	<b>797,231</b>	1,212,231
Zhuzhou Times Electric Insulation Co., Ltd.	<b>47,879</b>	114,672
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	<b>13,725,280</b>	11,655,442
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	<b>1,351,192</b>	4,340,630
Hunan CSR Times Electric Vehicle Co., Ltd.	<b>122,733</b>	—
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	<b>1,133,322</b>	798,000
Beijing CSR Electric Sales Co., Ltd.	<b>484,000</b>	1,104,000
Changzhou Ruiyang Transmission Technology Co., Ltd.	<b>1,040,000</b>	2,803,350
Zhuzhou Times New Material Technology Co., Ltd.	<b>445,775</b>	—
Changzhou Ruitai Engineering Machinery Co., Ltd.	<b>1,573,860</b>	—
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	<b>32,992</b>	—
Xiangyang CSR Electric Machinery Co., Ltd.	<b>1,323,400</b>	—
	<b>261,705,015</b>	49,556,851

# Notes to Financial Statements

31 December 2012

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## VI. Related party relationships and transactions (continued)

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

	31 December 2012	31 December 2011
<b>Bills payable:</b>		
Shiling	90,000,000	58,900,000
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	625,031	4,257,700
Zhuzhou Times New Material Technology Co., Ltd.	2,670,000	2,700,000
CSR Sifang Rolling Stock Co., Ltd.	20,000	200,000
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	12,300,000	7,022,300
CSR Luoyang Locomotive Co., Ltd.	1,000,000	—
	<b>106,615,031</b>	<b>73,080,000</b>
<b>Receipts in advance:</b>		
CSR Shijiazhuang Rolling Stock Co., Ltd.	16,863,070	—
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	138,960	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	2,376,068	—
CSR Zhuzhou Electric Co., Ltd.	—	145,200
Beijing North Gofront Science Business Co., Ltd.	—	85,706
	<b>19,378,098</b>	<b>230,906</b>



# Notes to Financial Statements

31 December 2012

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## VI. Related party relationships and transactions (continued)

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

	31 December 2012	31 December 2011
<b>Other payables:</b>		
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	463,300	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	25,866,728	4,850,000
	<u>26,330,028</u>	<u>4,850,000</u>

The Group's bills receivable 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. 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 2012	31 December 2011
<b>Capital commitments:</b>		
Contracted, but not provided for	189,779,858	152,075,786
Authorised but not contracted for	698,465,576	831,914,703
	<u>888,245,434</u>	<u>983,990,489</u>
<b>Investment commitments:</b>		
Contracted, but not fulfilled	16,616,071	49,934,800

## IX. Post Balance Sheet Events

As of the approval date of the financial statements, the Group had no material post balance sheet events which should be disclosed.

# Notes to Financial Statements

31 December 2012

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## 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:

	2012	2011
Within 1 year, inclusive	5,871,250	5,861,413
1 to 2 years, inclusive	1,537,232	4,611,695
2 to 3 years, inclusive	—	1,537,232
	<u>7,408,482</u>	<u>12,010,340</u>

#### *As lessee*

Significant operating lease

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

	2012	2011
Within 1 year, inclusive	5,624,499	7,029,655
1 to 2 years, inclusive	2,826,772	3,032,139
2 to 3 years, inclusive	2,093,215	2,411,162
Over 3 years	1,489,438	4,246,110
	<u>12,033,924</u>	<u>16,719,066</u>

# Notes to Financial Statements

31 December 2012

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## X. Other Significant Events (continued)

### 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

	2012	2011
Rolling stock and its extension products and services	<b>7,216,498,178</b>	7,124,774,974

##### Geographical information

Revenue from external customers

	2012	2011
Mainland China	<b>6,878,665,880</b>	6,803,704,691
Other countries and regions	<b>337,832,298</b>	321,070,283
	<b>7,216,498,178</b>	7,124,774,974

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

Total non-current assets

	31 December 2012	31 December 2011
Mainland China	<b>2,077,728,204</b>	1,801,653,602
Other countries and regions	<b>275,557,033</b>	252,889,974
	<b>2,353,285,237</b>	2,054,543,576

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 2012, the Group's operating revenue (which accounted for more than 10% of the Group's total revenue) of RMB3,638,231,364 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 (2011: RMB4,592,958,843 from a single customer).

# Notes to Financial Statements

31 December 2012

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## 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:

#### **2012**

##### Financial assets

Cash and bank balances	2,318,915,451
Bills receivable	890,637,187
Trade receivables	2,737,063,058
Other receivables	54,126,114
Non-current assets due within one year	1,163,640
Long-term receivables	609,036
	<hr/>
	<b>6,002,514,486</b>

##### Financial liabilities

Bills payable	713,768,911
Trade payables	1,273,648,373
Other payables	129,848,739
Long-term borrowings (inclusive of long-term borrowings due within one year)	69,707,468
	<hr/>
	<b>2,186,973,491</b>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### **Classification of financial instruments** (continued)

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
	<hr/>
	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
Interest payable	12,468,969
Other payables	134,599,283
Long-term borrowings (inclusive of long-term borrowings due within one year)	60,251,244
	<hr/>
	2,201,477,804

**X. Other Significant Events** (continued)**3. Financial instruments and their risks** (continued)**Credit risk**

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

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 2012, the Group had certain concentrations of credit risk as 21.3% (31 December 2011: 29.0%) and 53.1% (31 December 2011: 41.1%) 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:

**2012**

	Total	Neither overdue nor impaired	Overdue but not impaired	
			Within six months	Over six months
Trade receivables	2,424,312,911	2,424,312,911	—	—
Bills receivable	890,637,187	890,637,187	—	—
Other receivables	43,742,036	43,742,036	—	—
Non-current assets due within one year	1,163,640	1,163,640	—	—
Long-term receivables	609,036	609,036	—	—
	<b>3,360,464,810</b>	<b>3,360,464,810</b>	—	—

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### **Credit risk** (continued)

2011

	Total	Neither overdue nor impaired	Overdue but not 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	—	—
	<u>2,330,287,117</u>	<u>2,330,287,117</u>	<u>—</u>	<u>—</u>

As at 31 December 2012 and 31 December 2011, trade receivables that were neither overdue nor impaired related to large number of clients who have no recent history of default.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### Liquidity risk

Liquidity risk is the risk that an enterprise may encounter a 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 summarises the maturity profile of the Group's financial assets and liabilities based on the undiscounted contractual cash flows:

#### 2012

<b>Financial assets</b>	<b>Within 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>Total</b>
Cash and bank balances	2,318,915,451	—	—	2,318,915,451
Bills receivable	890,637,187	—	—	890,637,187
Trade receivables	2,737,063,058	—	—	2,737,063,058
Other receivables	54,126,114	—	—	54,126,114
Non-current assets due within one year	1,258,766	—	—	1,258,766
Long-term receivables	—	629,383	—	629,383
	<u>6,002,000,576</u>	<u>629,383</u>	<u>—</u>	<u>6,002,629,959</u>
<b>Financial liabilities</b>	<b>Within 1 year</b>	<b>1 to 2 years</b>	<b>2 to 5 years</b>	<b>Total</b>
Bills payable	713,768,911	—	—	713,768,911
Trade payables	1,273,648,373	—	—	1,273,648,373
Other payables	129,848,739	—	—	129,848,739
Long-term borrowings (inclusive of long-term borrowings due within one year)	43,685,939	11,561,437	18,702,237	73,949,613
	<u>2,160,951,962</u>	<u>11,561,437</u>	<u>18,702,237</u>	<u>2,191,215,636</u>



# Notes to Financial Statements

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## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### Liquidity risk (continued)

2011

<b>Financial assets</b>	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
	<u>4,743,216,383</u>	<u>1,258,766</u>	<u>629,383</u>	<u>4,745,104,532</u>
<b>Financial liabilities</b>	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 one year)	4,742,694	38,706,699	20,521,933	63,971,326
	<u>2,164,220,454</u>	<u>38,706,699</u>	<u>20,521,933</u>	<u>2,223,449,086</u>

## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### **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*
2012	+100	(682,150)	—
	-100	682,150	—
2011	+100	(1,590,508)	—
	-100	1,590,508	—

\* excluding retained earnings.

#### **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 its 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.

# Notes to Financial Statements

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## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### Market risk (continued)

#### Foreign currency risk (continued)

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.

#### 2012

	Increase/ (decrease) in exchange rate	Increase/ (decrease) in total profit	Increase/ (decrease) in shareholders' equity*
Japanese yen			
If RMB strengthens against Japanese yen	+10%	12,293,303	—
If RMB weakens against Japanese yen	-10%	(12,293,303)	—
United States dollar			
If RMB strengthens against United States dollar	+10%	(10,819,666)	—
If RMB weakens against United States dollar	-10%	10,819,666	—
Great British pound			
If RMB strengthens against Great British pound	+10%	4,345,897	—
If RMB weakens against Great British pound	-10%	(4,345,897)	—
Canadian dollar			
If RMB strengthens against Canadian dollar	+10%	341,203	—
If RMB weakens against Canadian dollar	-10%	(341,203)	—

\* excluding retained earnings.

# Notes to Financial Statements

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Renminbi Yuan

## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### Market risk (continued)

#### Foreign currency risk (continued)

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.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### Capital Management

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

The Group manages its capital structure and makes adjustments to it in 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 2012.

The Group monitors capital using a gearing ratio. 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, interest payable and other payables, less cash and cash equivalents. The gearing ratio as at the balance sheet date was as follows:

	2012	2011
Short-term borrowings	—	139,000,000
Short-term bonds payable	—	500,000,000
Bills payable	<b>713,768,911</b>	448,604,661
Trade payables	<b>1,273,648,373</b>	906,553,647
Receipts in advance	<b>291,978,737</b>	351,164,281
Employee benefits payable	<b>63,912,163</b>	15,390,522
Taxes payable (excluding income tax payable)	<b>178,396,503</b>	100,518,913
Interest payable	—	12,468,969
Other payables	<b>129,848,739</b>	134,599,283
Long-term borrowings (inclusive of amounts due within one year)	<b>69,707,468</b>	60,251,244
Less: cash and cash equivalents	<b>2,297,286,786</b>	2,053,718,390
Net debt	<b>423,974,108</b>	614,833,130
Equity attributable to shareholders of the Parent	<b>6,178,224,932</b>	5,316,660,857
Capital and net debt	<b>6,602,199,040</b>	5,931,493,987
Gearing ratio	<b>6.4%</b>	10.4%

# Notes to Financial Statements

31 December 2012

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## X. Other Significant Events (continued)

### 3. Financial instruments and their risks (continued)

#### 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, interest 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.

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

#### Financial assets

	Carrying amount		Fair value	
	2012	2011	2012	2011
Cash and bank balances	<b>2,318,915,451</b>	2,157,721,027	<b>2,318,915,451</b>	2,157,721,027
Bills receivable	<b>890,637,187</b>	1,051,609,300	<b>890,637,187</b>	1,051,609,300
Trade receivables	<b>2,737,063,058</b>	1,119,253,348	<b>2,737,063,058</b>	1,119,253,348
Other receivables	<b>54,126,114</b>	103,373,942	<b>54,126,114</b>	103,373,942
Non-current assets due within one year	<b>1,163,640</b>	1,092,595	<b>1,163,640</b>	1,092,595
Other current assets	—	310,000,000	—	310,000,000
Long-term receivables	<b>609,036</b>	1,772,676	<b>609,036</b>	1,772,676
	<b><u>6,002,514,486</u></b>	<u>4,744,822,888</u>	<b><u>6,002,514,486</u></b>	<u>4,744,822,888</u>

#### Financial liabilities

	Carrying amount		Fair value	
	2012	2011	2012	2011
Short-term borrowings	—	139,000,000	—	139,000,000
Short-term bonds payable	—	500,000,000	—	497,812,000
Bills payable	<b>713,768,911</b>	448,604,661	<b>713,768,911</b>	448,604,661
Trade payables	<b>1,273,648,373</b>	906,553,647	<b>1,273,648,373</b>	906,553,647
Interest payable	—	12,468,969	—	12,468,969
Other payables	<b>129,848,739</b>	134,599,283	<b>129,848,739</b>	134,599,283
Long-term borrowings (inclusive of long-term borrowings due within one year)	<b>69,707,468</b>	60,251,244	<b>69,707,468</b>	60,251,244
	<b><u>2,186,973,491</u></b>	<u>2,201,477,804</u>	<b><u>2,186,973,491</u></b>	<u>2,199,289,804</u>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## X. Other Significant Events (continued)

### 4. Other financial information

(1)

	31 December 2012		31 December 2011	
	Group	Company	Group	Company
Net current assets	<b>4,171,465,896</b>	<b>3,786,068,796</b>	3,618,521,720	3,213,603,704
Total assets less current liabilities	<b><u>6,618,139,310</u></b>	<b><u>6,211,668,646</u></b>	<u>5,734,555,521</u>	<u>5,361,648,611</u>

(2)

	2012	2011
Contributions paid to pension plans	<b><u>89,112,701</u></b>	<u>79,983,437</u>

As at 31 December 2012, the Group was not mandated to withdraw any amount of contributions in order to reduce the contribution amounts to pension plans in future years (2011: Nil).

### 5. Remuneration of directors, supervisors and chief executive

Remuneration of directors, supervisors and chief executive for the current year is disclosed as follows:

	2012	2011
Fees	<b>913,095</b>	767,518
Other emoluments:		
Salaries, allowances and benefits in kind	<b>1,402,000</b>	1,327,338
Performance related bonuses	<b>1,295,284</b>	1,029,977
Pension scheme contributions	<b>146,208</b>	143,136
	<b><u>2,843,492</u></b>	<u>2,500,451</u>
	<b><u>3,756,587</u></b>	<u>3,267,969</u>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## X. Other Significant Events (continued)

### 5. Remuneration of directors, supervisors and chief executive (continued)

2012

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
<b>Executive directors</b>					
Ding Rongjun	—	—	—	—	—
Li Donglin (chief executive)	—	469,828	514,479	36,552	1,020,859
	—	469,828	514,479	36,552	1,020,859
<b>Non-executive directors</b>					
Deng Huijin	—	—	—	—	—
Ma Yunkun	77,382	—	—	—	77,382
Yan Wu	—	294,028	181,900	36,552	512,480
	77,382	294,028	181,900	36,552	589,862
<b>Independent non-executive directors</b>					
Gao Yucai	92,857	—	—	—	92,857
Chan Kam Wing, Clement	278,571	—	—	—	278,571
Pao Ping Wing	278,571	—	—	—	278,571
Liu Chunru	92,857	—	—	—	92,857
	742,856	—	—	—	742,856
<b>Supervisors</b>					
He Wencheng	—	—	—	—	—
Pang Yiming	—	258,228	226,168	36,552	520,948
Zhou Guifa	—	379,916	372,737	36,552	789,205
Geng Jianxin	92,857	—	—	—	92,857
	92,857	638,144	598,905	73,104	1,403,010
	913,095	1,402,000	1,295,284	146,208	3,756,587



# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## X. Other Significant Events (continued)

### 5. Remuneration of directors, supervisors and chief executive (continued)

2011

	Fees	Salaries, allowances and benefits in kind	Performance related bonuses	Pension scheme contributions	Total
<b>Executive directors</b>					
Ding Rongjun	—	—	—	—	—
Li Donglin (chief executive)	—	400,228	519,900	35,784	955,912
	—	400,228	519,900	35,784	955,912
<b>Non-executive directors</b>					
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
<b>Independent non-executive directors</b>					
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
<b>Supervisors</b>					
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

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## X. Other Significant Events (continued)

### 5. Remuneration of directors, supervisors and chief executive (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.

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

	2012	2011
Director, supervisor and chief executive	1	1
Non-director and non-supervisor employee	4	4
	<u>5</u>	<u>5</u>

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

	2012	2011
Salaries, allowances and benefits in kind	4,143,434	3,861,957
Performance related bonuses	459,273	771,505
Pension scheme contributions	170,754	195,532
	<u>4,773,461</u>	<u>4,828,994</u>

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

	2012	2011
Below HKD1,000,000	1	2
HKD1,000,001 to HKD2,000,000	2	1
HKD2,000,001 to HKD2,500,000	1	1
	<u>4</u>	<u>4</u>

In 2012, there were no director, supervisor, chief executive or any of the non-director, non-supervisor, non-chief executive 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.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## 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 ageing analysis of the trade receivables is as follows:

	<b>31 December 2012</b>	31 December 2011
Within 6 months	<b>2,061,339,778</b>	777,536,646
6 months to 1 year	<b>232,395,216</b>	143,298,311
1 to 2 years	<b>70,276,728</b>	34,009,509
2 to 3 years	<b>4,932,688</b>	22,735,523
Over 3 years	<b>11,567,542</b>	7,077,691
	<b>2,380,511,952</b>	984,657,680
Less: provision for bad debt	<b>34,882,598</b>	30,057,969
	<b>2,345,629,354</b>	954,599,711

The movements of provision for bad debt are as follows:

	<b>2012</b>	2011
Opening balance	<b>30,057,969</b>	28,227,240
Provision in the current year	<b>5,511,519</b>	5,383,581
Transfer in the current year	<b>—</b>	448,413
Reversal in the current year	<b>(103,686)</b>	(3,955,767)
Write-off in the current year	<b>(583,204)</b>	(45,498)
Closing balance	<b>34,882,598</b>	30,057,969

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	<b>99,613,555</b>	<b>3,071,971</b>

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.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 2. Other receivables

The ageing analysis of the other receivables is as follows:

	<b>31 December 2012</b>	31 December 2011
Within 1 year	<b>126,605,558</b>	176,126,951
1 to 2 years	<b>90,050,173</b>	34,425,941
2 to 3 years	<b>34,283,740</b>	41,053,063
Over 3 years	<b>135,017,416</b>	94,218,080
	<b>385,956,887</b>	345,824,035
Less: provision for bad debt	<b>2,474,975</b>	2,532,950
	<b>383,481,912</b>	343,291,085

The movements of provision for bad debt are as follows:

	<b>2012</b>	2011
Opening balance	<b>2,532,950</b>	2,532,950
Provision in the current period	<b>1,474,975</b>	—
Write-off in the current year	<b>(1,532,950)</b>	—
Closing balance	<b>2,474,975</b>	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.

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 3. Long-term equity investments

2012

	Opening balance	Increase	Closing balance	Impairment provision	Net value at end of year	Cash dividend
Unlisted investments:						
Equity method:						
Jointly-controlled entity						
Shiling	154,535,591	14,514,521	169,050,112	—	169,050,112	11,000,000
Associates						
Zhuzhou Siemens	47,918,177	24,885,488	72,803,665	—	72,803,665	30,182,757
Xiwu	—	13,171,076	13,171,076	—	13,171,076	—
	47,918,177	38,056,564	85,974,741	—	85,974,741	30,182,757
Cost method:						
Times Electronics	182,977,618	—	182,977,618	—	182,977,618	110,000,000
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	5,000,000
Shenyang Times	3,000,000	—	3,000,000	—	3,000,000	—
Baoji Times	160,000,000	—	160,000,000	—	160,000,000	—
Kunming Electric	3,000,000	—	3,000,000	—	3,000,000	—
Hangzhou Electric	18,000,000	15,000,000	33,000,000	—	33,000,000	—
Dynex	216,539,728	—	216,539,728	—	216,539,728	—
Guangzhou Times	18,000,000	—	18,000,000	—	18,000,000	—
HK Electric	—	8,098,000	8,098,000	—	8,098,000	—
Times Australia	—	1,814,037	1,814,037	—	1,814,037	—
Ningbo Electric	—	10,000,000	10,000,000	—	10,000,000	—
	701,773,274	34,912,037	736,685,311	—	736,685,311	135,000,000
	904,227,042	87,483,122	991,710,164	—	991,710,164	176,182,757

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

### 3. Long-term equity investments (continued)

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 Electric	3,000,000	—	3,000,000	—	3,000,000	—
Hangzhou Electric	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	—
	<u>680,773,274</u>	<u>21,000,000</u>	<u>701,773,274</u>	<u>—</u>	<u>701,773,274</u>	<u>180,000,000</u>
	<u>848,477,212</u>	<u>55,749,830</u>	<u>904,227,042</u>	<u>—</u>	<u>904,227,042</u>	<u>195,061,710</u>

# Notes to Financial Statements

31 December 2012

Renminbi Yuan

## 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:

	2012	2011
Revenue from principal operations	<b>6,166,318,751</b>	6,284,383,470
Other operating income	<b>149,691,612</b>	70,674,747
	<b><u>6,316,010,363</u></b>	<b><u>6,355,058,217</u></b>

Cost of sales is stated as follows:

	2012	2011
Cost of sales from principal operations	<b>4,223,111,835</b>	4,159,774,837
Other operating costs	<b>120,482,852</b>	56,242,953
	<b><u>4,343,594,687</u></b>	<b><u>4,216,017,790</u></b>

### 5. Investment income

	2012	2011
Income from non-listed investments:		
Long-term equity investment income under the equity method	<b>77,503,842</b>	49,811,540
Long-term equity investment income under the cost method	<b>135,000,000</b>	180,000,000
Income from entrusted loans	<b>9,410,938</b>	—
Bank financial product income	<b>10,771,690</b>	1,278,967
	<b><u>232,686,470</u></b>	<b><u>231,090,507</u></b>

# Notes to Financial Statements

31 December 2012

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

### 6. Supplementary information to cash flow statement

	2012	2011
Adjustment of net profit to cash flows from operating activities:		
Net profit	<b>1,189,284,970</b>	1,230,740,732
Add: Provision for impairment of assets	<b>4,281,773</b>	81,068,240
Depreciation	<b>86,014,850</b>	84,614,801
Amortisation of intangible assets	<b>11,233,099</b>	9,934,686
Losses/(Gains) from disposal of fixed assets, intangible assets and other long-term assets	<b>227,907</b>	(960,542)
Finance costs	<b>13,916,660</b>	33,274,313
Investment income	<b>(232,686,470)</b>	(231,090,507)
Increase in deferred tax assets	<b>(31,776,299)</b>	(15,937,117)
Decrease/(Increase) in inventories	<b>595,637,232</b>	(94,445,773)
Increase in operating receivables	<b>(1,169,784,186)</b>	(573,345,930)
Increase in operating payables	<b>594,030,184</b>	434,460,760
Net cash flows from operating activities	<b><u>1,060,379,720</u></b>	<u>958,313,663</u>



# Notes to Financial Statements

31 December 2012

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## 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

	2012	2011
Times Electronics	79,001,845	82,146,847
Shenyang Times	14,484,675	18,663,682
Dynex	13,702,530	11,809,761
Times USA	19,338,485	10,714,235
Baoji Times	10,761,044	6,312,490
Times Equipment	9,881,137	6,100,543
Ningbo Times	1,656,088	1,493,018
Kunming Electric	112,962,996	2,515,324
Times Information	1,995,434	33,781
Guangzhou Times	55,347,575	—
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	1,890,553,358	2,585,787,603
CSR Zhuzhou Electric Locomotive Co., Ltd.	947,073,897	1,471,167,015
CSR Qishuyan Locomotive Co., Ltd.	322,533,099	359,975,601
CSR Ziyang Locomotive Co., Ltd.	50,778,668	39,142,666
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	64,325,062	34,509,385
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	132,290,094	28,005,795
Nanjing CSR Haida Railway Service Co., Ltd.	7,692,308	—
Hunan CSR Times Electric Vehicle Co., Ltd.	15,010,640	16,993,957
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	38,604,126	16,266,906
Shijiazhuang King Transportation Equipment Co., Ltd.	8,559,985	10,989,573
Beijing North Gofront Science Business Co., Ltd.	6,846,812	4,901,940
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	12,738,664	2,897,844
CSR Zhuzhou Electric Co., Ltd.	—	1,483,156
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	342,771	729,516
Zhuzhou Times New Material Technology Co., Ltd.	—	698,200
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	—	260,600
CSR Sifang Rolling Stock Co., Ltd.	650,424	204,492
Bombardier Sifang (Qingdao) Transportation Ltd.	—	157,186
Qingdao Sifang Coach Repair Co., Ltd.	232,812	146,201
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	—	494,962
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	—	34,450
Kunming CSR Urban Rail Vehicle Co., Ltd.	2,677	—
Guangzhou Electrical Locomotive Co., Ltd.	50,912,202	—
Zhuzhou Electromechanical Technology Co., Ltd.	2,724,034	—
Shiling	367,661,277	—
	<b>4,238,664,719</b>	<b>4,714,636,729</b>

# Notes to Financial Statements

31 December 2012

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## 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

	2012	2011
Times Equipment	82,064,424	87,117,098
Ningbo Times	88,951,198	71,788,808
Dynex	109,939,803	53,975,673
Times Electronics	31,046,884	36,836,705
Shenyang Times	30,181,738	34,640,761
Baoji Times	52,435,051	28,699,145
Kunming Electric	120,910,190	—
Times USA	2,076,030	—
Guangzhou Times	67,590,000	—
Shiling	481,679,291	380,967,196
CSR Qishuyan Locomotive Co., Ltd.	92,747,722	224,358,974
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	47,317,893	81,437,101
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	73,909,696	74,012,087
CSR Zhuzhou Electric Co., Ltd.	85,914,914	57,208,352
CSR Zhuzhou Electric Locomotive Co., Ltd.	14,636,488	50,213,974
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	57,877,113	31,509,511
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	1,433,643	16,385,331
Zhuzhou Times New Material Technology Co., Ltd.	608,538	7,424,067
Hunan CSR Times Electric Vehicle Co., Ltd.	1,686,748	2,796,529
Shijiazhuang King Transportation Equipment Co., Ltd.	383,333	339,316
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	116,454,185	259,829
Xiangyang CSR Electric Machinery Co., Ltd.	18,242,222	—
Zhuzhou Electromechanical Technology Co., Ltd.	116,148,629	—
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	30,699	—
Zhuzhou Times Electric Insulation Co., Ltd.	9,995,759	44,273
CSR Zhuzhou Electric Locomotive Works	1,244,444	—
Changzhou Ruiyang Transmission Technology Co., Ltd.	51,139,871	34,866,325
	<b>1,756,646,506</b>	<b>1,274,881,055</b>

# Notes to Financial Statements

31 December 2012

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

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

#### (3) Sales of electricity to related parties

	2012	2011
Times Equipment	343,542	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	267,150	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	708,260	667,088
Zhuzhou Siemens	688,102	599,130
	<u>2,007,054</u>	<u>1,266,218</u>

#### (4) Purchases of electricity from related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Co., Ltd.	84,278	—
Zhuzhou Electromechanical Technology Co., Ltd.	21,940	—
	<u>106,218</u>	<u>—</u>

#### (5) Sales of fixed assets to related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	<u>41,750</u>	<u>—</u>

#### (6) Purchases of intangible assets from related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	<u>430,560</u>	<u>—</u>

#### (7) Related party leases

Income from assets leased to related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	1,947,928	1,391,522
Zhuzhou Siemens	6,132,438	1,921,539
	<u>8,080,366</u>	<u>3,313,061</u>

# Notes to Financial Statements

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

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

#### (7) Related party leases (continued)

Expenses incurred from assets leased by related parties

	2012	2011
Zhuzhou Electric Vehicle Co., Ltd.	306,100	—
CSR Zhuzhou Electric Locomotive Works	244,332	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	770,206	534,274
	<u>1,320,638</u>	<u>534,274</u>

#### (8) Technical services income from related parties

	2012	2011
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	330,120	—
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	150,400	—
CSR Zhuzhou Electric Locomotive Co., Ltd.	254,000	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	562,350	—
CSR Zhuzhou Electric Co., Ltd.	361,200	—
CSR Ziyang Locomotive Co., Ltd.	70,000	—
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	6,701,000	—
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	72,200	—
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	31,890	—
Zhuzhou Electromechanical Technology Co., Ltd.	171,150	—
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	374,260	—
Zhuzhou Times New Material Technology Co., Ltd.	1,041,130	—
Hunan CSR Times Electric Vehicle Co., Ltd.	772,510	—
Xiangyang CSR Electric Machinery Co., Ltd.	262,680	—
Zhuzhou Electric Vehicle Co., Ltd.	36,755	—
	<u>11,191,645</u>	<u>—</u>

#### (9) Technical service fee paid to related parties

	2012	2011
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	35,892,454	—
Dynex	17,780,064	—
	<u>53,672,518</u>	<u>—</u>

Note: The terms of the above sales and purchase transactions, sales and purchase of fix assets, service transactions and lease transactions with related parties were agreed by both parties.

# Notes to Financial Statements

31 December 2012

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

### 8. Amounts due from and due to related parties

	31 December 2012	31 December 2011
Trade receivables:		
Ningbo Times	105,415	113,221
Times Electronics	59,690,691	21,575,516
Times Equipment	1,433,253	3,585,998
Baoji Times	2,287,000	5,127,492
Shenyang Times	—	1,629,523
Times Information	2,296,176	—
Kunming Electric	1,507,650	2,942,929
Dynex	2,674,500	2,152,045
Times USA	10,955,460	6,877,584
CSR Zhuzhou Electric Locomotive Co., Ltd.	523,866,679	27,163,931
Beijing North Gofront Science Business Co., Ltd.	634,499	1,100,164
CSR Zhuzhou Electric Co., Ltd.	—	480,000
CSR Ziyang Locomotive Co., Ltd.	14,952,711	17,061,819
CSR Qishuyan Locomotive Co., Ltd.	73,832,971	14,434,745
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	591,077,508	334,993,249
CSR Sifang Rolling Stock Co., Ltd.	311,894	192,630
Qingdao Sifang Coach Repair Co., Ltd.	301,845	47,710
Bombardier Sifang (Qingdao) Transportation Ltd.	—	60,000
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	55,501,702	10,982,291
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	—	366,753
Shijiazhuang King Transportation Equipment Co., Ltd.	4,776,805	2,958,585
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	43,817,897	15,175,260
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	33,804,230	148,000
Hunan CSR Times Electric Vehicle Co., Ltd.	5,112,218	29,800
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	330,120	—
Zhuzhou CSR Times Hi-tech Investment & Trusting Co., Ltd.	31,890	—
Guangzhou Electrical Locomotive Co., Ltd.	41,650,000	—
Shiling	54,927,684	—
	<b>1,525,880,798</b>	<b>469,199,245</b>

# Notes to Financial Statements

31 December 2012

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

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

	31 December 2012	31 December 2011
Bills receivable:		
Baoji Times	100,000	490,000
CSR Qishuyan Locomotive Co., Ltd.	50,000,000	—
Bombardier Sifang (Qingdao) Transportation Ltd.	4,000,000	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	584,093	—
CSR Zhuzhou Electric Locomotive Co., Ltd.	90,000,000	201,000,000
CSR Ziyang Locomotive Co., Ltd.	14,200,000	4,550,000
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	298,900,000	380,000,000
CSR Nanjing Puzhen Rolling Stock Co., Ltd.	48,330,000	1,300,000
Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.	—	2,500,000
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	150,000	960,000
CSR Luoyang Locomotive Co., Ltd.	500,000	1,200,000
Shijiazhuang King Transportation Equipment Co., Ltd.	2,900,000	4,000,000
Hunan CSR Times Electric Vehicle Co., Ltd.	60,000	600,000
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	23,961,639	187,057
	<b>533,685,732</b>	<b>596,787,057</b>
Prepayments:		
Times Equipment	1,185,000	—
Baoji Times	—	5,249,439
Shenyang Times	—	—
Dynex	4,492,105	15,123,309
Times Electronics	9,828	—
CSR Corporation Limited	118,100	118,100
CSR Zhuzhou Electric Locomotive Co., Ltd.	118,044	—
CSR Qishuyan Locomotive Co., Ltd.	12,000	12,000
	<b>5,935,077</b>	<b>20,502,848</b>

# Notes to Financial Statements

31 December 2012

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

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

	<b>31 December 2012</b>	31 December 2011
Other receivables:		
Times Electronics	<b>3,352</b>	—
Guangzhou Times	<b>1,479,857</b>	—
Ningbo Times	<b>100,571,407</b>	99,741,660
Times Information	<b>54,392,196</b>	35,551,299
Baoji Times	<b>85,233,727</b>	34,860,000
Shenyang Times	<b>53,465,280</b>	53,130,000
Kunming Electric	<b>42,087,466</b>	30,500,000
Times USA	<b>27,420</b>	465,158
CSR Zhuzhou Electric Locomotive Co., Ltd.	—	1,120
CSR Qishuyan Locomotive Co., Ltd.	—	50,000
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	<b>17,000</b>	20,000
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	<b>1,654,912</b>	3,191,424
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	—	80,087
CSR Zhuzhou Electric Locomotive Works	—	1,500
Zhuzhou Siemens	<b>35,109</b>	25,349
	<b>338,967,726</b>	257,617,597

# Notes to Financial Statements

31 December 2012

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

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

	31 December 2012	31 December 2011
Trade payables:		
Baoji Times	8,313,377	—
Kunming Electric	5,171,734	—
Guangzhou Times	7,910,300	—
Ningbo Times	47,783,852	22,444,672
Times Electronics	2,753,918	308,269
Times Equipment	26,056,405	37,330,635
Shenyang Times	8,059,302	5,441,679
Dynex	10,826,830	5,676,757
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	45,323	633,459
CSR Zhuzhou Electric Co., Ltd.	94,898,062	6,880,497
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	52,374,903	—
Shijiazhuang King Transportation Equipment Co., Ltd.	784,688	391,188
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	—	729,009
Zhuzhou Times New Material Technology Co., Ltd.	—	—
Zhuzhou Times Electric Insulation Co., Ltd.	547	—
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	13,674,852	11,655,442
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	108,692	1,671,030
Hunan CSR Times Electric Vehicle Co., Ltd.	122,733	—
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	633,322	798,000
Shiling	45,097,920	18,214,573
Zhuzhou Electromechanical Technology Co., Ltd.	41,121,169	—
Changzhou Ruiyang Transmission Technology Co., Ltd.	1,040,000	2,803,350
CSR Zhuzhou Electric Locomotive Co., Ltd.	133,334	—
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	32,992	—
Xiangyang CSR Electric Machinery Co., Ltd.	1,323,400	—
	<b>368,267,655</b>	<b>114,978,560</b>



# Notes to Financial Statements

31 December 2012

Renminbi Yuan

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

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

	<b>31 December 2012</b>	31 December 2011
Bills payable:		
Kunming Electric	<b>1,500,000</b>	—
Ningbo Times	<b>340,000</b>	5,350,000
CSR Qishuyan Locomotive & Rolling Stock Technology Research Institute Co., Ltd.	<b>625,031</b>	4,257,700
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	<b>12,300,000</b>	7,022,300
Shiling	<b>90,000,000</b>	58,900,000
Zhuzhou Times New Material Technology Co., Ltd.	<b>670,000</b>	—
	<b>105,435,031</b>	75,530,000
	<b>31 December 2012</b>	31 December 2011
Receipts in advance:		
Dynex	<b>399,484</b>	—
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	<b>2,376,068</b>	—
Beijing North Gofront Science Business Co., Ltd.	—	85,706
CSR Zhuzhou Electric Co., Ltd.	—	145,200
CSR Chengdu Locomotive & Rolling Stock Co., Ltd.	<b>138,960</b>	—
	<b>2,914,512</b>	230,906
	<b>31 December 2012</b>	31 December 2011
Other payables:		
Shenyang Times	<b>193,420</b>	—
Times Equipment	<b>9,010,767</b>	6,086,567
Dynex	<b>356,222</b>	6,346,848
Kunming Electric	<b>773,519</b>	773,519
CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd.	<b>25,866,728</b>	4,850,000
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	<b>2,000</b>	—
	<b>36,202,656</b>	18,056,934

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.

“Articles”	the Articles of Association of the Company
“Baoji Times”	寶雞南車時代工程機械有限公司 (Baoji CSR Times Engineering Machinery Co. Ltd.), a subsidiary of the Company in which the Company holds 80% of its equity interest
“Board” or “Board of Directors”	the board of Directors of the Company
“Company”	株州南車時代電氣股份有限公司(Zhuzhou CSR Times Electric Co., Ltd.), a joint stock company established in the PRC whose H share are listed on the Main Board of the Stock Exchange
“CSR”	中國南車股份有限公司 (CSR Corporation Limited), a joint stock limited liability company established in the PRC whose A shares and H shares are listed on the Shanghai Stock Exchange and the Main Board of the Stock Exchange, respectively. CSR is directly and indirectly owned as to 57.12% 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”	南車株州電力機車有限公司(CSR Zhuzhou Electric Locomotive Co., Ltd.), held as to 100% by CSR; one of the Promoters
“Director(s)”	the director(s) of the Company
“Dynex”	Dynex Power Inc., a company established under the law of Canada and listed on the TSX Venture Exchange, Toronto, Canada (stock code: DNX) 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 subsidiary of the Company in which the Company holds 60% of its equity interest
“Hangzhou Electric”	杭州南車電氣設備有限公司(Hangzhou CSR Electric Equipment Co., Ltd.), a subsidiary of the Company in which the Company holds 60% of its equity interest
“HK Electric”	CSR Times Electric (Hong Kong) Co., Limited, a company established under the law of Hong Kong and a wholly-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

## Glossary

“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
“New CG Code”	the Code on Corporate Governance and Corporate Governance Report set out in Appendix 14 of the Listing Rules
“Ningbo Electric”	寧波南車電氣設備有限公司 (Ningbo CSR Electric Equipment Co., Ltd.), a wholly-owned subsidiary of the Company
“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 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 Ministry of Finance of the PRC
“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”	瀋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 2012
“Times Australia”	CSR Times Electric Australia Pty. Ltd., a company established under the law of Australia and a wholly-owned subsidiary of the Company
“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
“ZNERCC”	株洲變流技術國家工程研究中心有限公司 (Zhuzhou National Engineering Research Centre of Converters Co., Ltd.), a limited liability company established under the laws of the PRC and a wholly-owned subsidiary of Parent Company

# Basic Corporate Information

1	<b>Name in Chinese</b> <b>Name in English</b>	株洲南車時代電氣股份有限公司 Zhuzhou CSR Times Electric Co., Ltd.
2	<b>Authorised representatives</b>	Ding Rongjun Tang Tuong Hock, Gabriel
3	<b>Company secretary</b> <b>Registered office</b> <b>Telephone</b> <b>Fax</b> <b>Website</b> <b>Principal place of business in Hong Kong</b>	Tang Tuong Hock, Gabriel Times Road, Shifeng District, Zhuzhou, Hunan Province, PRC, 412001 +86 731 2849 8028 +86 731 2849 3447 <a href="http://www.timeselectric.cn">http://www.timeselectric.cn</a> Unit 1106, 11th Floor, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong
4	<b>Listing information</b>	H Share The Stock Exchange of Hong Kong Limited Stock Code : 3898 Stock Short Name: CSR Times Electric
5	<b>H share registrar</b>	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
6	<b>Legal advisers</b>	Minter Ellison Grandall Law Firm (Hangzhou)
7	<b>Auditors</b>	Ernst & Young Hua Ming LLP Level 16, Ernst & Young Tower Oriental Plaza, No. 1 East Chang An Avenue Dong Cheng District, Beijing China 100738