

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)



INTERIM REPORT **2015**

CONTENTS

Results In Brief	2
Business Review and Outlook	3
Unaudited Interim Financial Statements	
Consolidated Statement of Financial Position	5
Consolidated Statement of Profit or Loss	8
Consolidated Statement of Changes in Equity	10
Consolidated Statement of Cash Flows	12
Statement of Financial Position	14
Statement of Profit or Loss	16
Statement of Changes in Equity	17
Statement of Cash Flows	18
Notes to Financial Statements	20
Management Discussion and Analysis	169
Other Information	178
Basic Corporate Information	186
Glossary	187

Notes:

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



RESULTS IN BRIEF

The Board of the Company is pleased to announce the unaudited operating results of the Company and its subsidiaries (collectively, the “Group”) for the six months ended 30 June 2015 which have been prepared in accordance with PRC Accounting Standards. The interim financial statements in this interim report are unaudited, but have been reviewed by the Audit Committee of the Company.

The revenue of the Group for the six months ended 30 June 2015 amounted to RMB5,722,961,086 (for the six months ended 30 June 2014: RMB5,180,417,557), representing an increase of 10% over the same period of last year. Total profit amounted to RMB1,431,472,973 (for the six months ended 30 June 2014: RMB1,051,863,210), representing an increase of 36% over the same period of last year. Net profit attributable to shareholders of the Parent amounted to RMB1,219,829,085 (for the six months ended 30 June 2014: RMB857,455,315), representing an increase of 42% over the same period of last year. Basic earnings per share amounted to RMB1.04 (for the six months ended 30 June 2014: RMB0.73).

This interim report sets forth the unaudited interim consolidated financial statements of the Group and the notes thereto.

BUSINESS REVIEW AND OUTLOOK

In the first half of 2015, the railway industry continued to deepen its transformation. CSR merged with CNR and renamed as CRRC and is ready to embrace a new era of the locomotive industry. Railway construction has been making steady progress and the main network of high-speed railway has completed gradually, bringing new vitality to the railway transportation market. The urban railway market continued to thrive.

In respect of the traction systems for locomotives, the Group actively expanded its market and completed its delivery to the international market as planned.

In respect of the traction systems for electric multiple units, the Group continued to deliver existing orders smoothly as planned and debuted its prototypes of national standardized electric multiple units.

In respect of metro market, the Group continued to maintain a positive momentum and strengthened its efforts in market expansion and delivered its existing contracts smoothly.

In respect of railway engineering machinery, the Group continued to promote research and development of new products and commenced a new business of railway measurement. The inspection and evaluation of a new generation of LKJ has been completed and will proceed to evaluation of on-site operation.

In respect of parts and components, the IGBT business achieved ongoing improvements and continued to promote product identification and expanded its product series, and accelerated the development of IGBT power module market and broadened and strengthened the parts and components segment through the collaboration with laminated busbars and sensors.

In April 2015, the Group tapped into the maritime engineering business through acquisition of the deepsea robots business and completion of the acquisition of 100% equity in SMD.

Since 2015, the Company continued to enhance its management systematically by implementing a series of highly effective measures covering various areas, including cost control, procedure management, industry development, technology innovation and quality control.

The establishment of CRRC will help to build up the premium image of 'Made in China' for the general railway transportation industry. Entering the second half of 2015, both the domestic and international market are full of uncertainties with a new competition landscape and situation. Under such circumstances, the Company will continue its commitment to develop the railway transportation business and strive for business growth, seek to better serve its customers and plan and expedite the development of new industries.

In the field of locomotives, the Group will actively focus on new demands, properly deliver existing orders and explore market opportunities; in the field of electric multiple units, the Group will complete delivery of orders on-hand on schedule and follow up new market opportunities, and take the initiative to conduct further testing on electric multiple units with national standards and push forward the inter-city electric multiple units project; in the field of metro, the Group will step up its efforts to capture more market opportunities and actively expand into related products markets; in the field of railway engineering machinery, the Group will expedite the application of new technologies, secure new markets and develop innovative business models. The Group will steadily promote the industrialization of IGBT, expedite product certification as well as promote product seriation, which will lay a foundation for the Group's development. The Group will also plan and push forward its development in the maritime engineering equipment market.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2015
Renminbi Yuan

ASSETS	Note V	30 June 2015 (Unaudited)	31 December 2014 (Audited)
CURRENT ASSETS			
Cash and bank balances	1	3,930,417,655	2,679,867,325
Bills receivable	2	1,480,638,238	3,184,352,916
Trade receivables	3	4,569,828,152	2,813,878,700
Prepayments	4	211,184,092	147,627,653
Other receivables	5	201,262,072	79,220,006
Inventories	6	3,525,839,219	2,207,339,644
Other current assets	7	2,291,656,562	3,053,675,472
Total current assets		16,210,825,990	14,165,961,716
NON-CURRENT ASSETS			
Available-for-sale financial asset		900,000	900,000
Long-term receivables	8	23,174,915	22,082,991
Long-term equity investments	9	274,683,416	237,010,505
Fixed assets	10	1,752,590,558	1,770,444,529
Construction in progress	11	166,287,984	112,914,938
Intangible assets	12	685,714,826	268,531,012
Development expenditure		15,737,660	15,092,149
Goodwill	13	600,699,778	13,770,533
Deferred tax assets	14	274,195,734	251,382,881
Other non-current assets	15	68,208,521	66,812,276
Total non-current assets		3,862,193,392	2,758,941,814
TOTAL ASSETS		20,073,019,382	16,924,903,530

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2015
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	30 June 2015 (Unaudited)	31 December 2014 (Audited)
CURRENT LIABILITIES			
Short-term borrowings	16	80,248,805	4,385,940
Bills payable	17	1,288,956,771	1,569,649,099
Trade payables	18	2,637,570,274	1,861,391,032
Advances from customers	19	622,792,400	588,010,023
Employee benefits payable	20	167,641,939	52,112,041
Taxes payable	21	243,677,979	146,880,754
Dividends payable	22	470,190,655	—
Other payables	23	424,695,910	373,833,468
Current portion of non-current liabilities	24	19,622,294	11,315,264
Provisions	26	319,059,982	329,643,512
Deferred income	27	49,777,204	49,528,830
Total current liabilities		6,324,234,213	4,986,749,963
NON-CURRENT LIABILITIES			
Long-term borrowings	25	904,359,698	37,492,529
Long-term payables	18	93,338,286	66,444,529
Provisions	26	519,515,223	480,083,471
Deferred income	27	195,736,355	168,992,811
Other non-current liabilities	28	6,418,498	—
Deferred tax liabilities	14	103,549,443	14,374,351
Total non-current liabilities		1,822,917,503	767,387,691
Total liabilities		8,147,151,716	5,754,137,654

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

30 June 2015
Renminbi Yuan

LIABILITIES AND SHAREHOLDERS' EQUITY	Note V	30 June 2015 (Unaudited)	31 December 2014 (Audited)
SHAREHOLDERS' EQUITY			
Share capital		1,175,476,637	1,175,476,637
Capital reserve		3,352,123,130	3,352,499,586
Other comprehensive income		(22,857,609)	(30,272,682)
Special reserve		3,033,938	2,920,995
Surplus reserve		984,257,722	859,087,844
Retained earnings	29	<u>6,255,751,858</u>	<u>5,631,283,306</u>
Total equity attributable to shareholders of the Parent		<u>11,747,785,676</u>	<u>10,990,995,686</u>
Non-controlling interests		<u>178,081,990</u>	<u>179,770,190</u>
Total shareholders' equity		<u>11,925,867,666</u>	<u>11,170,765,876</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>20,073,019,382</u>	<u>16,924,903,530</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015

Renminbi Yuan

	Note V	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Revenue	30	5,722,961,086	5,180,417,557
Less: Cost of sales	30	3,460,354,609	3,323,807,389
Business taxes and surcharges		36,579,048	30,092,963
Selling expenses		243,417,182	274,798,214
Administrative expenses		678,970,492	494,247,703
Finance costs	31	(45,259,183)	(9,945,580)
Asset impairment losses	32	55,855,484	166,778,816
Add: Investment income	33	72,799,724	71,788,935
including: share of profits of associates and joint ventures	33	35,038,335	32,016,196
Operating profit		1,365,843,178	972,426,987
Add: Non-operating income	34	71,131,275	80,603,880
including: gains on disposal of non-current assets	34	277,906	287,517
Less: Non-operating expenses	35	5,501,480	1,167,657
including: losses on disposal of non-current assets	35	131,598	509,143
Total profit	36	1,431,472,973	1,051,863,210
Less: Income tax expense	37	211,523,560	196,930,626
Net profit		1,219,949,413	854,932,584

CONSOLIDATED STATEMENT OF PROFIT OR LOSS (continued)

For the six months ended 30 June 2015

Renminbi Yuan

	Note V	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Net profit attributable to shareholders of the Parent		<u>1,219,829,085</u>	857,455,315
Non-controlling interests		<u>120,328</u>	<u>(2,522,731)</u>
Other comprehensive income, net of tax			
Other comprehensive income attributable to shareholders of the Parent, net of tax			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Exchange fluctuation reserve		<u>7,415,073</u>	<u>7,875,844</u>
Total other comprehensive income attributable to non-controlling shareholders, net of tax		<u>(241,035)</u>	<u>2,379,287</u>
Total comprehensive income		<u>1,227,123,451</u>	<u>865,187,715</u>
Including:			
Total comprehensive income attributable to shareholders of the Parent		<u>1,227,244,158</u>	<u>865,331,159</u>
Total comprehensive losses attributable to non-controlling shareholders		<u>(120,707)</u>	<u>(143,444)</u>
Earnings per share (Yuan/Share)	38		
Basic		<u>1.04</u>	<u>0.73</u>
Diluted		<u>1.04</u>	<u>0.73</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

Renminbi Yuan

	Attributable to shareholders of the Parent						Sub-total	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Other comprehensive income			
I. 1 January 2015 (audited)	1,175,476,637	3,352,499,586	2,920,995	859,087,844	5,631,283,306	(30,272,682)	10,990,995,686	179,770,190	11,170,765,876
II. Movements during the period									
(i) Total comprehensive income (unaudited)	—	—	—	—	1,219,829,085	7,415,073	1,227,244,158	(120,707)	1,227,123,451
(ii) Capital contribution and withdrawal by shareholders									
1. Others (unaudited)	—	(376,456)	—	—	—	—	(376,456)	376,456	—
(iii) Profit appropriation									
1. Transfer to surplus reserve (unaudited)	—	—	—	125,169,878	(125,169,878)	—	—	—	—
2. Dividends paid (unaudited)	—	—	—	—	(470,190,655)	—	(470,190,655)	(1,943,949)	(472,134,604)
(iv) Special reserve									
1. Accrued during the period (unaudited)	—	—	7,844,096	—	—	—	7,844,096	—	7,844,096
2. Paid during the period (unaudited)	—	—	(7,731,153)	—	—	—	(7,731,153)	—	(7,731,153)
III. 30 June 2015 (unaudited)	<u>1,175,476,637</u>	<u>3,352,123,130</u>	<u>3,033,938</u>	<u>984,257,722</u>	<u>6,255,751,858</u>	<u>(22,857,609)</u>	<u>11,747,785,676</u>	<u>178,081,990</u>	<u>11,925,867,666</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

For the six months ended 30 June 2014

Renminbi Yuan

	Attributable to shareholders of the Parent						Sub-total	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Other comprehensive income			
I. 1 January 2014 (audited)	1,175,476,637	3,354,300,202	1,148,151	624,621,343	3,882,348,394	(21,995,965)	9,015,898,762	134,221,486	9,150,120,248
II. Movements during the period									
(i) Total comprehensive income (unaudited)	—	—	—	—	857,455,315	7,875,844	865,331,159	(143,444)	865,187,715
(ii) Capital contribution and withdrawal by shareholders									
1. Capital contribution by non-controlling shareholders (unaudited)	—	—	—	—	—	—	—	52,000,000	52,000,000
2. Acquisition of non-controlling interest (unaudited)	—	(13,535)	—	—	—	—	(13,535)	(29,724)	(43,259)
3. Others (unaudited)	—	(594,527)	—	—	—	—	(594,527)	594,527	—
(iii) Profit appropriation									
1. Transfer to surplus reserve (unaudited)	—	—	—	95,040,485	(95,040,485)	—	—	—	—
2. Dividends paid (unaudited)	—	—	—	—	(411,416,823)	—	(411,416,823)	(2,691,236)	(414,108,059)
(iv) Special reserve									
1. Accrued during the period (unaudited)	—	—	7,899,744	—	—	—	7,899,744	387,031	8,286,775
2. Paid during the period (unaudited)	—	—	(5,479,897)	—	—	—	(5,479,897)	(161,260)	(5,641,157)
III. 30 June 2014 (unaudited)	<u>1,175,476,637</u>	<u>3,353,692,140</u>	<u>3,567,998</u>	<u>719,661,828</u>	<u>4,233,346,401</u>	<u>(14,120,121)</u>	<u>9,471,624,883</u>	<u>184,177,380</u>	<u>9,655,802,263</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

Renminbi Yuan

	Note V	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
1. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		5,427,921,902	3,990,890,674
Refunds of taxes		51,140,648	76,048,193
Cash received relating to other operating activities		172,601,507	89,153,600
Sub-total of cash inflows from operating activities		5,651,664,057	4,156,092,467
Cash paid for goods and services		(3,319,894,699)	(2,630,493,625)
Cash paid to and on behalf of employees		(474,556,972)	(357,843,267)
Cash paid for all types of taxes		(629,476,909)	(538,521,044)
Cash paid relating to other operating activities		(595,679,476)	(460,815,697)
Sub-total of cash outflows from operating activities		(5,019,608,056)	(3,987,673,633)
Net cash flows from operating activities	39	632,056,001	168,418,834
2. Cash flows from investing activities			
Cash received from disposal or returns of investments		3,000,000,000	1,000,000,000
Cash received from returns on investments		31,374,786	29,986,712
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		547,474	532,925
Cash received relating to other investing activities		30,920,000	1,600,000
Sub-total of cash inflows from investing activities		3,062,842,260	1,032,119,637
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		(104,712,055)	(153,266,174)
Cash paid for acquisition of investments		(2,080,000,000)	(1,550,000,000)
Cash paid for acquisition of subsidiaries	39	(1,074,807,066)	—
Cash paid relating to other investing activities		(92,311,980)	—
Sub-total of cash outflows from investing activities		(3,351,831,101)	(1,703,266,174)
Net cash flows used in investing activities		(288,988,841)	(671,146,537)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2015

Renminbi Yuan

	Note V	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
3. Cash flows from financing activities			
Cash received from capital contribution		—	51,956,741
Including: Cash received from non-controlling shareholders of subsidiaries		—	51,956,741
Cash received from borrowings		<u>945,489,188</u>	<u>26,287,582</u>
Sub-total of cash inflows from financing activities		<u>945,489,188</u>	<u>78,244,323</u>
Cash repayment of borrowings		<u>(38,024,488)</u>	<u>(36,626,380)</u>
Cash paid for distribution of dividends or profits and for interest expenses		<u>(5,057,875)</u>	<u>(4,694,163)</u>
Sub-total of cash outflows from financing activities		<u>(43,082,363)</u>	<u>(41,320,543)</u>
Net cash flows from financing activities		<u>902,406,825</u>	<u>36,923,780</u>
4. Effect of foreign exchange rate changes on cash and cash equivalents		<u>(532,720)</u>	—
5. Net increase/(decrease) in cash and cash equivalents		<u>1,244,941,265</u>	<u>(465,803,923)</u>
Add: Cash and cash equivalents at beginning of period		<u>2,647,816,044</u>	<u>3,118,401,874</u>
6. Cash and cash equivalents at end of period	39	<u><u>3,892,757,309</u></u>	<u><u>2,652,597,951</u></u>

STATEMENT OF FINANCIAL POSITION

30 June 2015

Renminbi Yuan

ASSETS	Note XIII	30 June 2015 (Unaudited)	31 December 2014 (Audited)
CURRENT ASSETS			
Cash and bank balances		3,079,702,910	2,214,865,319
Bills receivable		1,333,533,295	2,994,220,756
Trade receivables	1	4,676,240,642	3,031,699,178
Dividends receivable		27,000,000	30,000,000
Prepayments		118,188,454	128,503,809
Other receivables	2	219,745,105	196,460,126
Inventories		2,710,992,109	1,730,480,968
Other current assets		2,264,992,360	2,699,227,291
Total current assets		14,430,394,875	13,025,457,447
NON-CURRENT ASSETS			
Available-for-sale financial asset		900,000	900,000
Long-term receivables	1	18,571,137	19,847,943
Long-term equity investments	3	1,344,397,569	1,294,059,234
Fixed assets		1,149,128,700	1,206,542,349
Construction in progress		146,758,773	118,891,409
Intangible assets		110,759,116	115,660,593
Deferred tax assets		237,451,352	222,587,213
Other non-current assets		437,313,790	90,235,103
Total non-current assets		3,445,280,437	3,068,723,844
TOTAL ASSETS		17,875,675,312	16,094,181,291

STATEMENT OF FINANCIAL POSITION (continued)

30 June 2015

Renminbi Yuan

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Bills payable	1,095,509,207	1,385,936,394
Trade payables	2,313,875,366	1,702,604,422
Advances from customers	544,168,384	512,415,169
Employee benefits payable	133,940,684	39,821,157
Taxes payable	148,932,095	113,121,711
Dividends payable	470,190,655	—
Other payables	397,428,264	422,236,768
Provisions	301,903,882	323,041,323
Deferred income	49,250,292	47,471,918
Total current liabilities	5,455,198,829	4,546,648,862
NON-CURRENT LIABILITIES		
Long-term payables	93,338,286	66,444,529
Provisions	513,007,461	474,472,283
Deferred income	175,679,139	149,672,139
Total non-current liabilities	782,024,886	690,588,951
Total liabilities	6,237,223,715	5,237,237,813
SHAREHOLDERS' EQUITY		
Share capital	1,175,476,637	1,175,476,637
Capital reserve	3,378,010,293	3,378,010,293
Surplus reserve	984,257,722	859,087,844
Retained earnings	6,100,706,945	5,444,368,704
Total shareholders' equity	11,638,451,597	10,856,943,478
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	17,875,675,312	16,094,181,291

STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2015

Renminbi Yuan

	Note XIII	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Revenue	4	4,954,212,927	4,718,626,312
Less: Cost of sales	4	3,035,926,081	3,099,539,460
Business taxes and surcharges		28,646,472	25,342,221
Selling expenses		192,018,070	247,291,632
Administrative expenses		509,393,990	371,032,825
Finance costs		(33,984,881)	(9,132,357)
Asset impairment losses		48,449,882	154,200,918
Add: Investment income	5	207,116,579	226,581,248
including: share of profits of associates and a joint venture	5	35,038,335	32,016,196
Operating profit		1,380,879,892	1,056,932,861
Add: Non-operating income		65,345,889	76,038,092
including: gains on disposal of non-current assets		262,928	188,442
Less: Non-operating expenses		1,439,359	505,862
including: losses on disposal of non-current assets		82,207	501,362
Total profit		1,444,786,422	1,132,465,091
Less: Income tax expense		193,087,648	182,060,236
Net profit		1,251,698,774	950,404,855
Other comprehensive income, net of tax		—	—
Total comprehensive income		1,251,698,774	950,404,855

STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2015

Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
I. 1 January 2015(audited)	1,175,476,637	3,378,010,293	—	859,087,844	5,444,368,704	10,856,943,478
II. Movements during the period						
(i) Total comprehensive income (unaudited)	—	—	—	—	1,251,698,774	1,251,698,774
(ii) Profit appropriation						
1. Transfer to surplus reserve (unaudited)	—	—	—	125,169,878	(125,169,878)	—
2. Dividends paid (unaudited)	—	—	—	—	(470,190,655)	(470,190,655)
(iii) Special reserve						
1. Accrued during the period (unaudited)	—	—	5,191,243	—	—	5,191,243
2. Paid during the period (unaudited)	—	—	(5,191,243)	—	—	(5,191,243)
III. 30 June 2015(unaudited)	<u>1,175,476,637</u>	<u>3,378,010,293</u>	<u>—</u>	<u>984,257,722</u>	<u>6,100,706,945</u>	<u>11,638,451,597</u>

For the six months ended 30 June 2014

Renminbi Yuan

	Share capital	Capital reserve	Special reserve	Surplus reserve	Retained earnings	Total shareholders' equity
I. 1 January 2014(audited)	1,175,476,637	3,378,010,293	—	624,621,343	3,745,587,014	8,923,695,287
II. Movements during the period						
(i) Total comprehensive income (unaudited)	—	—	—	—	950,404,855	950,404,855
(ii) Profit appropriation						
1. Transfer to surplus reserve (unaudited)	—	—	—	95,040,485	(95,040,485)	—
2. Dividends paid (unaudited)	—	—	—	—	(411,416,823)	(411,416,823)
(iii) Special reserve						
1. Accrued during the period (unaudited)	—	—	5,388,683	—	—	5,388,683
2. Paid during the period (unaudited)	—	—	(5,388,683)	—	—	(5,388,683)
III. 30 June 2014(unaudited)	<u>1,175,476,637</u>	<u>3,378,010,293</u>	<u>—</u>	<u>719,661,828</u>	<u>4,189,534,561</u>	<u>9,462,683,319</u>

STATEMENT OF CASH FLOWS

For the six months ended 30 June 2015

Renminbi Yuan

	Note XIII	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
1. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		4,655,901,622	3,536,939,704
Refunds of taxes		50,883,804	76,048,193
Cash received relating to other operating activities		162,238,996	40,345,511
Sub-total of cash inflows from operating activities		4,869,024,422	3,653,333,408
Cash paid for goods and services		(3,010,332,898)	(2,523,967,194)
Cash paid to and on behalf of employees		(290,812,477)	(227,011,501)
Cash paid for all types of taxes		(502,904,270)	(442,939,717)
Cash paid relating to other operating activities		(512,248,868)	(365,612,298)
Sub-total of cash outflows from operating activities		(4,316,298,513)	(3,559,530,710)
Net cash flows from operating activities	6	552,725,909	93,802,698
2. Cash flows from investing activities			
Cash received from disposal or returns of investments		2,660,000,000	1,000,000,000
Cash received from returns on investments		168,322,820	89,986,712
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		425,612	353,450
Sub-total of cash inflows from investing activities		2,828,748,432	1,090,340,162
Cash paid for acquisitions of fixed assets, intangible assets and other long-term assets		(89,680,178)	(82,109,024)
Cash paid for acquisition of investments		(2,427,260,000)	(1,694,000,000)
Sub-total of cash outflows from investing activities		(2,516,940,178)	(1,776,109,024)
Net cash flows from/(used in) investing activities		311,808,254	(685,768,862)

STATEMENT OF CASH FLOWS (continued)

For the six months ended 30 June 2015

Renminbi Yuan

	Note XIII	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
3. Cash flows from financing activities			
Cash received from borrowings		—	20,000,000
Sub-total of cash inflows from financing activities		—	20,000,000
Net cash flows from financing activities		—	20,000,000
4. Effect of foreign exchange rate changes on cash and cash equivalents		303,428	—
5. Net increase/(decrease) in cash and cash equivalents		864,837,591	(571,966,164)
Add: Cash and cash equivalents at beginning of period		2,214,865,319	2,763,730,041
6. Cash and cash equivalents at end of period	6	3,079,702,910	2,191,763,877

NOTES TO FINANCIAL STATEMENTS

30 June 2015

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., CSR Qishuyan Locomotive & Rolling Stock Works, CSR Zhuzhou Electric Locomotive Co., Ltd., CSR Investment & Leasing Co., Ltd. and CRCC High-Tech Equipment Co., Ltd. (formerly known as China Railway Large Maintenance Machinery Co., Ltd. Kunming) at the date of 26 September 2005. 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 H 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.

In October 2013, the Company issued 91,221,000 H Shares with a nominal value of RMB1 each through the Hong Kong Stock Exchange. The issue price was HKD25 per share. The total proceeds before deducting issuing expenses amounted to HKD2,280,525,000 (equivalent to approximately RMB1,803,872,470). These H shares were listed and traded on the Main Board of the Hong Kong Stock Exchange in October 2013. Consequently upon the issue of the H Shares, the registered capital and paid-in capital of the Company was increased to RMB1,175,476,637.

As at 30 June 2015, the Company had issued an aggregate of 1,175,476,637 shares as share capital.

The Group's parent and controlling shareholder of the parent are CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. and CRRC Corporation Limited (CSR Corporation Limited merged with China CNR Corporation Limited and renamed as CRRC Corporation Limited) respectively, both established in the PRC.

The financial statements were approved by the board of directors of the Company on 18 August 2015.

The consolidation scope of the consolidated financial statements is determined on the basis of control. Amendments for current period refer to Note VI.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

II. BASIS OF PREPARATION

Basis of Preparation

The financial statements are prepared in accordance with the “Accounting Standards for Business Enterprises – General Principles” issued by the China Ministry of Finance, together with specific accounting standards, application guidance, interpretations and other related regulations issued and revised thereafter (“Accounting Standards for Business Enterprises”, collectively).

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises No. 32 Interim Financial Reporting issued by the China Ministry of Finance. The financial statements do not include all the information and disclosure required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2014. The accounting policies and estimates adopted in the preparation of the financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2014.

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.

Adoption of new and revised Accounting Standards

The Ministry of Finance issued Accounting Standards for Business Enterprises No. 39 Fair Value Measurement, Accounting Standards for Business Enterprises No. 40 Joint Arrangements and revised Accounting Standards for Business Enterprises No.30 Presentation of Financial Statements, Accounting Standards for Business Enterprises No. 9 Employee Benefits, Accounting Standards for Business Enterprises No. 33 Consolidated Financial Statements and Accounting Standards for Business Enterprises No. 2 Long-term Equity Investments during the period from 1 January to 19 March 2014. The above six Accounting Standards for Business Enterprises are effective from 1 July 2014, and entities listed overseas are encouraged to adopt the above six Accounting Standards for Business Enterprises in advance. As a Hong Kong listed company, the Company has adopted the above six Accounting Standards for Business Enterprises in the preparation of the financial statements for the year 2013 in accordance with the regulation in the transition period.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

II. BASIS OF PREPARATION (continued)

Adoption of new and revised Accounting Standards (continued)

On 27 March 2014, the Ministry of Finance issued Accounting Standards for Business Enterprises No.41 Disclosure of Interests in Other Entities which is effective on 1 July 2014, and entities listed overseas are encouraged to adopt it in advance. On 11 July 2014, the Ministry of Finance issued Accounting Standards for Business Enterprises No.37 Financial Instruments Disclosure, and required enterprises that have implemented Accounting Standards for Business Enterprises to adopt this accounting standard for the year 2014 and subsequent periods. The Company has adopted the above Accounting Standards for Business Enterprises in the preparation of the financial statements for the six months ended 30 June 2014 and the year 2014. The changes of accounting policies by reason of the adoption of the above accounting standards have been applied and no retrospective adjustment have been made to the comparative financial information.

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 30 June 2015 and the financial performance and cash flows for the six months period then ended in accordance with Accounting Standards for Business Enterprises.

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES

1. Accounting period

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

2. 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, joint ventures 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

3. 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 the acquiree. The combination date is the date on which the acquirer effectively obtains control of the acquiree.

Assets and liabilities that are obtained by the acquirer in a business combination involving entities under common control (including the goodwill generated by the ultimate controller in the acquisition of the acquiree) shall be measured at their carrying amounts at the combination date as recorded by the acquiree. 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 reserve. If the capital reserve 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

3. Business combinations (continued)

Business combinations not involving entities under common control (continued)

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 net identifiable 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.

4. Consolidated financial statements

The consolidation scope of the consolidated financial statements is determined on the basis of control, including the financial statements for the six months ended 30 June 2015 of the Company and all of its subsidiaries. A subsidiary is an entity that is controlled by the Company (including enterprise, divided part of the investee and a structured 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 assets, liabilities, equities, revenues, expenses and cash flows resulting from intra-group transactions are eliminated on consolidation in full.

Where the amount of losses of a subsidiary attributable to non-controlling shareholders exceeds the opening balance of owners' equity attributable to non-controlling shareholders of the subsidiary, the excess shall still be allocated against non-controlling interests.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

4. Consolidated financial statements (continued)

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 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.

The Group shall reassess whether it controls an investee if facts and circumstances indicate that there are changes to one or more of elements of control.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

5. Joint arrangement classification and joint operation

Joint arrangement is classified as joint operation and joint venture. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

The Group recognizes in relation to its interest in a joint operation: its assets, including its share of any assets held jointly; its liabilities, including its share of any liabilities incurred jointly; its revenue from the sale of its share of the output arising from the joint operation; its share of the revenue from the sale of the output by the joint operation; and its expenses, including its share of any expenses incurred jointly.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

6. 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.

7. 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 statement of financial position 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 statement of profit or loss 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 statement of financial position. 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

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

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 statement of cash flows.

8. 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 of financial instruments

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), that is to be written off from the accounts and the statement of financial position 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.

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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

8. Financial instruments (continued)

Classification and measurement of financial assets

The Group's financial assets are, on initial recognition, classified into the following categories: financial assets at fair value through profit or loss, other current assets, loans and receivables, available-for-sale financial asset 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 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 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 profit or loss of the current period.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

8. Financial instruments (continued)

Classification and measurement of financial assets (continued)

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 profit or loss of the current period.

Loans and receivables

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

Available-for-sale financial assets

Available-for-sale financial assets 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, available-for-sale financial asset are measured at fair value. The premium/discount is amortised using the 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 profit or loss of the current period. Interest and dividends relating to an available-for-sale financial asset are recognised in 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

8. Financial instruments (continued)

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 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 (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

8. Financial instruments (continued)

Offsetting of financial instruments

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

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. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows.

Financial assets carried at amortised cost

If 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 through the use of allowance account (excluding future credit losses that have not been incurred). The amount reduced is recognised in profit or loss. 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. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

8. Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

8. Financial instruments (continued)

Impairment of financial assets (continued)

Available-for-sale financial asset

If there is objective evidence that an available-for-sale financial 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.

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

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the extent or duration to which the fair value of an investment is less than its cost.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

8. Financial instruments (continued)

Impairment of financial assets (continued)

Financial assets carried at cost

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

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 are 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.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

9. Inventories

Inventories include raw materials, work in progress, finished goods, assets under construction contract 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 the provision for the decline in value of inventories, and is recognised in 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

10. Long-term equity investments

Long-term equity investments include investments in subsidiaries, joint ventures and associates.

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 involving entities under common control, the initial investment cost of the long-term equity investment is the acquirer's share of the carrying amount of acquiree's equity at the combination date in the consolidated financial statements of ultimate controller; the difference between the carrying amount of the net assets obtained and the carrying amount of the consideration paid for the combination 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). The other comprehensive income before combination date is accounted for in the disposal of such investment under the same accounting basis applied by the acquiree in direct disposal of relevant assets and liabilities. The shareholders' equity recognised due to acquiree's movements other than net profits, other comprehensive income, and distribution of profits is recognised in profit or loss of the current period during disposal. If the investment remains to be classified as long-term equity investment after disposal, the equity is carried forward pro rata. If the investment is reclassified as financial instruments after disposal, the equity is carried forward entirely. For a long-term equity investment through a business combination not involving entities 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. Other comprehensive income recognised using equity method that consists of the initial investment cost before the date of acquisition should be accounted for in the disposal of such investment under the same accounting basis applied by the acquiree in direct disposal of relevant assets and liabilities. The shareholders' equity recognised due to acquiree's movements other than net profits, other comprehensive income, and distribution of profits is recognised in profit or loss of the current period during disposal. If the investment remains to be classified as long-term equity investment after disposal, the equity is carried forward pro rata. If the investment is reclassified as financial instruments after disposal, the equity is carried forward entirely. The fair value change accumulated due to the recognition of other comprehensive income in processing previously held equity investment as financial instrument before acquisition date is entirely recognised in profit or loss at current period when switch to cost method. For a long-term equity investment acquired other 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

10. Long-term equity investments (continued)

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 over an investee. An investor must have exposure or rights to variable returns from its involvement with the investee, and the ability to use its power over the investee to affect the amount of the investor's returns.

Under the cost method, the long-term equity investment is measured at its initial investment cost. The cost of long-term equity investment is adjusted if capital is contributed or withdrawn. The cash dividend or profit distribution declared by the investee is recognised as investment income for the period.

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 of an arrangement, which exists only when decisions about the relevant activities 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 profit or loss of the current period, and the cost of the long-term equity investment is adjusted accordingly.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

10. Long-term equity investments (continued)

Under the equity method, the Group recognises its share of the net profits or losses and other comprehensive income made by the investee as investment income or losses and other comprehensive income respectively, 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 joint ventures 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), except for the disposal of assets that consist of operations. 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, other comprehensive income, and profit distribution) and includes the corresponding adjustments in the shareholders' equity of the Group.

On disposal of a long-term equity investment, the difference between the proceeds actually received and the carrying amount is recognised in profit or loss of the current period; for a long-term equity investment ceased to be accounted for using the equity method, the other comprehensive income relevant to equity method is processed under the same accounting basis applied by the acquiree in direct disposal of relevant assets and liabilities. Changes in shareholders' equity of the investee (other than net profits or losses, other comprehensive income, and profit distribution) should be recognised as profit or loss of the current period; for a long-term equity investment remains to be accounted for using the equity method, the other comprehensive income originally accounted for using the equity method is processed under the same accounting basis applied by the acquiree in direct disposal of relevant assets and liabilities, and is transferred to profit or loss of the current period according to the proportion disposed of. Any changes in the shareholders' equity of the investee (other than net profits or losses, other comprehensive income, and profit distribution) included in the shareholders' equity of the Group is transferred to profit or loss of the current period on a pro-rata basis according to the proportion disposed of.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

11. 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 meets the recognition criteria shall be included in the cost of the fixed asset, and the carrying amount of the component of the fixed asset that is replaced shall be derecognised. Otherwise, such expenditure shall be recognised in the profit or loss for the period in which 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.

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 years	5%	2.11%-4.75%
Machinery	6 years	5%	15.83%
Vehicles	5 years	5%	19.00%
Office facilities and others	5 years	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 makes adjustments if necessary.

12. 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

13. 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

13. Borrowing costs (continued)

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.

14. Intangible assets

An intangible asset shall be recognised only when it is probable that the economic benefits 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

14. Intangible assets (continued)

The useful lives of the intangible assets are as follows:

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

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

An intangible asset with a finite useful life is amortised using the straight-line method over its useful life. For an intangible asset with a finite useful life, the Group reviews the useful life and the 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

14. Intangible assets (continued)

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 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 profit or loss for the period in which it is incurred.

15. Impairment of assets

The Group determines the impairment of assets, other than the impairment of inventories, deferred income taxes, financial assets, 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

15. Impairment of assets (continued)

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 profit or loss of the current period. A provision for impairment loss of the asset is recognised accordingly.

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

In testing an asset group or a set of asset groups to which goodwill has been allocated for impairment, if there is any indication of impairment, the Group firstly tests the asset group or set of asset groups excluding the amount of goodwill allocated for impairment, compares the recoverable amount with the carrying amount and recognise impairment loss if any. 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 the subsequent accounting periods.

16. Employee benefits

Employee benefits are all forms of considerations given by an entity in exchange for services rendered by employees or for the termination of employment. Employee benefits include short-term benefits, post-employment benefits, termination benefits and other long-term employee benefits. The benefits the Group provided to employees' spouse, children, dependent, and families of deceased employees also belong to employee benefits.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

16. Employee benefits (continued)

Short-term benefits

The actual short-term benefits occurred during the accounting period that employees provide services are recognised as liability in the costs of the relevant assets or profit or loss of the current period.

Benefits after demission (Defined contribution plan)

The employees of the Group participate in social pension which are managed by the local government, and the relevant expenditure is recognised, when incurred, in the profit or loss of the current period.

Termination benefits

The Group recognises a liability and expenses for termination benefits at the earlier of the following dates: a) when the Group can no longer withdraw the offer of those benefits; and b) when the Group recognises costs for a restructuring and involves the payment of termination costs.

17. Provisions

Except for contingent consideration transferred and contingent liability assumed in business combinations not involving entities under common control, 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

18. 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 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 the 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 the 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

18. Revenue (continued)

Revenue from the rendering of services (continued)

When the Group has entered into a contract or agreement with other enterprises comprising both sales of goods and the 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.

Revenue from the construction contract

At the balance sheet date, if the outcome of a construction contract can be estimated reliably, revenue and expenses are recognised on the percentage of completion method, otherwise revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. The outcome of a construction contract can be estimated reliably when: it is probable that the associated economic benefits will flow to the Group; the costs incurred and to be incurred for the contract can be measured reliably; and additional condition should be satisfied for fixed price contract: the total contract amount can be measured reliably and the percentage of completion as well as the estimated cost of completion can be determined reliably. The Group measures percentage of completion by reference to the proportion that costs incurred to date bearing to estimated total costs for each contract. Total contract amount includes the initial amount specified in the contract and the amount of revenue because of contract alteration, penalty, bonus, etc.

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 obtaining 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

19. 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.

Pursuant to government documents, if the government grant is a compensation for constructing or forming long-term assets, the government grant is recognised as government grants related to assets. When government documents are not stated clearly, the fundamental conditions attached to the grant should be the criterion for judgments. If the fundamental conditions attached to the grant are for constructing or forming long-term assets, the government grant is recognised as government grants related to assets, otherwise, the government grant is recognised as government grants related to income.

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 profit or loss of the current period.

20. Income tax

Income tax comprises current and deferred tax. Income tax is recognised as income or expense in profit or loss of the current period, or recognised directly in shareholders' equity if it gives rise to adjustments for goodwill 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 the tax authority calculated according to related tax laws.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

20. Income tax (continued)

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

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

- (1) where the taxable temporary differences arise from the initial recognition of goodwill, or the initial recognition of an asset or liability in a transaction which contains both of the following characteristics: (i) the transaction is not a business combination; and (ii) at the time of the transaction, it affects neither accounting profit nor taxable profit or deductible loss.
- (2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not 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 joint ventures, 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

20. Income tax (continued)

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.

21. 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 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

22. Distribution of profit

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

23. 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, offsetting against the special reserve and the accumulated depreciation shall be recognised equivalent at the same time.

24. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Group measures its assets or liabilities at fair value at the end of each reporting period. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group at the measurement date. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

24. Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole: Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities; Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly; Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation at the end of each reporting period.

25. Significant accounting judgements and estimates

The preparation of the financial statements requires management to make judgements, estimates and assumptions 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

25. Significant accounting judgements and estimates (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements which have the most significant effect on the amounts recognised in the financial statements:

Consolidation of entities in which the Group holds less than a majority of voting rights

The Group considers that it controls Qingdao CSR Electric Equipment Co., Ltd. ("Qingdao Electric") even though it owns less than 50% of the voting rights. This is because the Group is the single largest shareholder of Qingdao Electric with a 45% equity interest. Pursuant to articles of Qingdao Electric, for resolutions of the shareholders' meeting affecting relative operating activities of Qingdao Electric, CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd., a related party of the Company, which owns Qingdao Electric 38% equity interest, commits to comply with the Company in the exercise of the proposal rights and voting rights. The Company recommends four of the seven directors in Board of Qingdao Electric and the resolutions of Board are deemed as valid when more than half of all directors approved.

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. Judgements 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

25. Significant accounting judgements and 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 judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

25. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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 (continued)

30 June 2015
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

26. Changes in accounting estimates

For the six months ended 30 June 2015, there are no changes in accounting estimates.

In 2014, the Group reassessed the useful life of machineries based on actual usage of machineries, and reduced the useful life of machineries from 10 years to 6 years, the main effects on financial statements for the year 2014 are demonstrated as follows:

The Group (audited)

	Closing balance/Current year amount for the year 2014 before changes in accounting estimates	Changes in accounting estimates	Closing balance/Current year amount for the year 2014 after changes in accounting estimates
Fixed assets	1,851,380,636	(80,936,107)	1,770,444,529
Retained earnings	5,712,219,413	(80,936,107)	5,631,283,306
Net profit	2,472,944,725	(80,936,107)	2,392,008,618
Net profit attributable to shareholders of the Parent	<u>2,475,754,343</u>	<u>(80,936,107)</u>	<u>2,394,818,236</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

III. SIGNIFICANT ACCOUNTING POLICIES AND ESTIMATES (continued)

26. Changes in accounting estimates (continued)

The Company (audited)

	Closing balance/Current year amount for the year 2014 before changes in accounting estimates	Changes in accounting estimates	Closing balance/Current year amount for the year 2014 after changes in accounting estimates
Fixed assets	1,279,850,620	(73,308,271)	1,206,542,349
Retained earnings	5,517,676,975	(73,308,271)	5,444,368,704
Net profit	<u>2,417,973,285</u>	<u>(73,308,271)</u>	<u>2,344,665,014</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IV. 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. |
| Urban maintenance and construction tax | – | 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%. The Company and its subsidiaries, Zhuzhou Times Electronics Technology Co., Ltd. ("Times Electronics"), Ningbo CSR Times Sensor Technology Co., Ltd. ("Ningbo Times"), and Zhuzhou Times Equipment Technology Co., Ltd. ("Times Equipment") were accredited as high-tech enterprises and granted certificates of high-tech enterprise and subject to corporate income tax at the rate of 15%.

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" (《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》), Baoji CSR Times Engineering Machinery Co., Ltd. ("Baoji Times") and Kunming CSR Electric Equipment Co., Ltd. ("Kunming Electric"), subsidiaries of the Company, fulfilled the conditions of enjoyment of the preferential tax at the rate of 15%.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and bank balances

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Cash	61,291	44,547
Cash in bank	3,877,524,208	2,641,329,027
Other cash and bank balances	52,832,156	38,493,751
	<u>3,930,417,655</u>	<u>2,679,867,325</u>

As at 30 June 2015, the cash and bank balances of RMB35,669,279 (unaudited) (31 December 2014 (audited): RMB21,953,359) and RMB17,162,877 (unaudited) (31 December 2014 (audited): RMB16,540,392) of the Group are restricted as security deposits for issuance of bank acceptance bills and for issuance of bank letters of guarantee respectively.

As at 30 June 2015, the cash and bank balances deposited overseas by the Group were equivalent to RMB69,882,558 (unaudited) (31 December 2014 (audited): RMB10,550,753).

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Bank acceptance bills	547,638,238	1,375,006,916
Commercial acceptance bills	933,000,000	1,809,346,000
	<u>1,480,638,238</u>	<u>3,184,352,916</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Bills receivable (continued)

Five highest bills receivable are listed as follows:

	30 June 2015 (Unaudited)
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	336,800,000
CSR Zhuzhou Electric Locomotive Co., Ltd.	233,000,000
Non-related party 1	165,400,000
CSR Qishuyan Locomotive Co., Ltd.	91,000,000
Non-related party 2	91,000,000
	<u>917,200,000</u>
	31 December 2014 (Audited)
CSR Zhuzhou Electric Locomotive Co., Ltd.	1,070,000,000
CSR Sifang Rolling Stock Co., Ltd.	264,000,000
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	255,000,000
Non-related party	230,896,000
Ziyang CSR Electric Locomotive Co., Ltd.	162,200,000
	<u>1,982,096,000</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

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.

Maturity analysis:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 6 months	3,435,241,966	2,486,167,476
6 months to 1 year	1,007,673,495	165,489,115
1 to 2 years	263,276,565	268,483,688
2 to 3 years	30,165,097	26,923,378
Over 3 years	7,213,862	7,360,713
	4,743,570,985	2,954,424,370
Less: Provision for bad debt	150,567,918	118,462,679
	4,593,003,067	2,835,961,691
Less: Classified as long-term receivables (Note V.8)	23,174,915	22,082,991
	4,569,828,152	2,813,878,700

The movements of provision for bad debt are as follows:

	For the six months ended 30 June 2015 (Unaudited)	2014 (Audited)
Opening balance	118,462,679	52,877,165
Business combination not under common control	2,655,697	—
Transferred-in in the current period/year	166,380	—
Provision in the current period/year	40,908,360	71,382,522
Reversal in the current period/year	(11,766,047)	(2,754,726)
Write-off in the current period/year	(24,171)	(3,027,791)
Exchange realignment	165,020	(14,491)
Closing balance	150,567,918	118,462,679

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Trade receivables (continued)

Five highest trade receivables (including long-term trade receivables) are listed as follows:

	30 June 2015 (Unaudited)
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	1,094,784,667
CSR Zhuzhou Electric Locomotive Co., Ltd.	622,787,814
Non-related party 1	250,566,689
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	113,109,840
Non-related party 2	102,062,670
	<u>2,183,311,680</u>
	31 December 2014 (Audited)
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	278,202,177
CSR Zhuzhou Electric Locomotive Co., Ltd.	235,334,005
CSR Qishuyan Locomotive Co., Ltd.	187,137,679
Non-related party	123,548,658
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	112,512,294
	<u>936,734,813</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Prepayments

Maturity analysis:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 1 year	202,335,885	141,087,808
1 to 2 years	5,046,586	5,145,359
2 to 3 years	2,437,033	133,387
Over 3 years	1,364,588	1,261,099
	<u>211,184,092</u>	<u>147,627,653</u>

Five highest prepayments are listed as follows:

	30 June 2015 (Unaudited)
Hunan CSR Webtec Railway Transportation Technology Co., Ltd. ("Xiwu")	35,000,000
Non-related party 1	28,788,218
Non-related party 2	12,492,191
Non-related party 3	11,306,899
Non-related party 4	11,245,070
	<u>98,832,378</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Prepayments (continued)

Five highest prepayments are listed as follows: (continued)

	31 December 2014 (Audited)
Non-related party 1	38,680,828
Xiwu	20,000,000
Non-related party 2	14,382,020
Non-related party 3	8,814,138
Non-related party 4	5,412,403
	<u>87,289,389</u>

5. Other receivables

Maturity analysis:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 1 year	196,254,774	75,093,027
1 to 2 years	6,817,585	4,115,311
2 to 3 years	572,739	1,243,443
Over 3 years	3,404,446	4,030,896
	<u>207,049,544</u>	<u>84,482,677</u>
Less: Provision for bad debt	<u>5,787,472</u>	<u>5,262,671</u>
	<u>201,262,072</u>	<u>79,220,006</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables (continued)

The movements of provision for bad debt are as follows:

	For the six months ended 30 June 2015 (Unaudited)	2014 (Audited)
Opening balance	5,262,671	2,837,263
Provision in the current period/year	617,555	2,437,908
Reversal in the current period/year	(92,754)	(12,500)
Closing balance	<u>5,787,472</u>	<u>5,262,671</u>

Net value of other receivables by nature is as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Retention amount of escrow account (Note VI.2 Note 3)	97,386,220	—
Tender deposit	27,313,446	9,642,194
Customs deposit	27,090,000	40,215,000
Deposit	13,984,318	14,529,583
Others	35,488,088	14,833,229
	<u>201,262,072</u>	<u>79,220,006</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables (continued)

Five highest other receivables are listed as follows:

	30 June 2015 (Unaudited)
Non-related party 1	97,386,220
Non-related party 2	27,090,000
Non-related party 3	17,000,000
Non-related party 4	3,951,690
Non-related party 5	1,734,000
	<hr/> 147,161,910 <hr/>
	 31 December 2014 (Audited)
Non-related party 1	40,215,000
Non-related party 2	4,159,674
Non-related party 3	1,938,000
Non-related party 4	1,145,000
Non-related party 5	1,095,955
	<hr/> 48,553,629 <hr/>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Inventories

	30 June 2015 (unaudited)		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	1,009,495,472	82,177,588	927,317,884
Semi-finished products	483,889,402	26,536,867	457,352,535
Work in progress	422,790,967	4,405,243	418,385,724
Finished goods	1,622,974,229	59,797,570	1,563,176,659
Assets under construction contract	151,743,877	—	151,743,877
Turnover materials	9,222,931	1,360,391	7,862,540
	3,700,116,878	174,277,659	3,525,839,219

	31 December 2014 (audited)		
	Gross carrying amount	Impairment provision	Carrying amount
Raw materials	538,111,869	42,738,369	495,373,500
Semi-finished products	322,321,916	46,266,599	276,055,317
Work in progress	270,037,222	20,806,696	249,230,526
Finished goods	1,214,975,643	33,524,243	1,181,451,400
Turnover materials	5,578,890	349,989	5,228,901
	2,351,025,540	143,685,896	2,207,339,644

Summary of the completed but not yet invoiced assets under construction contract included in the closing balance of inventories are listed as below:

	Aggregate cost incurred	Aggregate margin recognised	Amount invoiced
30 June 2015 (unaudited)	1,030,664,406	224,723,331	1,103,643,860

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Inventories (continued)

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

For the six months ended 30 June 2015 (unaudited)

	Opening balance	Provision	Business combination not under common control	Reversal	Exchange realignment	Closing balance
Raw materials	42,738,369	25,084,846	13,933,010	—	421,363	82,177,588
Semi-finished products	46,266,599	7,468,928	—	(27,198,660)	—	26,536,867
Work in progress	20,806,696	140,917	—	(13,077,419)	(3,464,951)	4,405,243
Finished goods	33,524,243	27,752,917	—	(112,254)	(1,367,336)	59,797,570
Turnover materials	349,989	1,023,091	—	(12,689)	—	1,360,391
	<u>143,685,896</u>	<u>61,470,699</u>	<u>13,933,010</u>	<u>(40,401,022)</u>	<u>(4,410,924)</u>	<u>174,277,659</u>

2014 (audited)

	Opening balance	Provision	Reversal and write-off	Exchange realignment	Closing balance
Raw materials	43,421,802	7,790,404	(7,998,149)	(475,688)	42,738,369
Semi-finished products	9,543,851	37,222,546	(499,798)	—	46,266,599
Work in progress	17,916,003	19,864,842	(15,747,898)	(1,226,251)	20,806,696
Finished goods	19,965,536	27,204,648	(12,177,745)	(1,468,196)	33,524,243
Turnover materials	915,864	48,844	(614,719)	—	349,989
	<u>91,763,056</u>	<u>92,131,284</u>	<u>(37,038,309)</u>	<u>(3,170,135)</u>	<u>143,685,896</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Other current assets

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Bank financial products (Note)	2,091,465,151	3,005,078,548
Corporation income tax retained	19,267	895,068
Value-added tax retained	193,179,762	46,887,745
Urban maintenance and construction tax retained	6,828,036	—
Other tax retained	164,346	814,111
	<u>2,291,656,562</u>	<u>3,053,675,472</u>

Note: As at 30 June 2015, the bank financial products held by the Group are principal guaranteed and income yielding with yield rates from 4.20% to 4.90% (unaudited) (31 December 2014 (audited): 3.20% to 5.69%). These bank financial products will expire in succession before 18 November 2015.

8. Long-term receivables

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Trade receivables (Note V. 3)	23,174,915	22,082,991
Less: Long-term receivables due within one year	—	—
	<u>23,174,915</u>	<u>22,082,991</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long-term equity investments

For the six months ended 30 June 2015 (unaudited)

	Current period movements				Closing balance
	Opening balance	Business combination not under common control	Investment income under equity method	Exchange realignment	
Non-listed investments					
Equity method					
Joint ventures					
Zhuzhou Shiling Transportation Equipment Company, Ltd. ("Shiling")	180,186,598	—	34,245,652	—	214,432,250
SMD-BORD Limited	—	2,497,286	—	137,271	2,634,557
SMD Energy Limited	—	18	—	1	19
	<u>180,186,598</u>	<u>2,497,304</u>	<u>34,245,652</u>	<u>137,272</u>	<u>217,066,826</u>
Associates					
Siemens Traction Equipment Ltd., Zhuzhou ("Zhuzhou Siemens")	49,577,867	—	610,651	—	50,188,518
Xiwu	7,246,040	—	182,032	—	7,428,072
	<u>56,823,907</u>	<u>—</u>	<u>792,683</u>	<u>—</u>	<u>57,616,590</u>
	<u>237,010,505</u>	<u>2,497,304</u>	<u>35,038,335</u>	<u>137,272</u>	<u>274,683,416</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long-term equity investments (continued)

2014 (audited)

	Opening balance	Current year movements			Closing balance
		Impact of unrealised profits	Investment income under equity method	Cash dividends announced	
Non-listed investments					
Equity method					
A joint venture					
Shiling	176,232,966	(36,604,782)	51,558,414	(11,000,000)	180,186,598
Associates					
Zhuzhou Siemens	47,029,031	—	2,548,836	—	49,577,867
Xiwu	9,691,451	—	(2,445,411)	—	7,246,040
	<u>56,720,482</u>	<u>—</u>	<u>103,425</u>	<u>—</u>	<u>56,823,907</u>
	<u>232,953,448</u>	<u>(36,604,782)</u>	<u>51,661,839</u>	<u>(11,000,000)</u>	<u>237,010,505</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Fixed assets

For the six months ended 30 June 2015 (unaudited)

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
Opening balance	1,261,094,096	1,277,569,640	36,087,412	168,813,399	2,743,564,547
Business combination not under common control (Note)	41,586,090	16,990,888	—	—	58,576,978
Purchase	3,663,401	13,762,715	3,237,147	4,717,183	25,380,446
Construction in progress	10,837,931	9,356,659	—	—	20,194,590
Sale and disposal	(9,564,516)	(4,980,647)	(360,362)	(1,232,404)	(16,137,929)
Exchange realignment	2,384,105	2,048,297	—	—	4,432,402
Closing balance	<u>1,310,001,107</u>	<u>1,314,747,552</u>	<u>38,964,197</u>	<u>172,298,178</u>	<u>2,836,011,034</u>
Accumulated depreciation					
Opening balance	208,074,544	579,405,768	23,630,302	97,055,455	908,166,069
Increase	20,973,043	78,456,223	2,598,624	9,080,682	111,108,572
Write-off	(9,556)	(4,338,474)	(306,937)	(907,558)	(5,562,525)
Exchange realignment	33,681	149,294	—	—	182,975
Closing balance	<u>229,071,712</u>	<u>653,672,811</u>	<u>25,921,989</u>	<u>105,228,579</u>	<u>1,013,895,091</u>
Impairment provision					
Opening balance	10,513,264	53,626,322	—	814,363	64,953,949
Increase	—	4,501,301	3,443	613,949	5,118,693
Write-off	—	(547,257)	—	—	(547,257)
Closing balance	<u>10,513,264</u>	<u>57,580,366</u>	<u>3,443</u>	<u>1,428,312</u>	<u>69,525,385</u>
Net carrying amount					
Closing balance	<u>1,070,416,131</u>	<u>603,494,375</u>	<u>13,038,765</u>	<u>65,641,287</u>	<u>1,752,590,558</u>
Opening balance	<u>1,042,506,288</u>	<u>644,537,550</u>	<u>12,457,110</u>	<u>70,943,581</u>	<u>1,770,444,529</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Fixed assets (continued)

2014 (audited)

	Buildings	Machinery	Vehicles	Office facilities and others	Total
Cost					
Opening balance	1,120,205,426	1,032,467,691	36,006,915	171,409,609	2,360,089,641
Purchase	6,578,510	35,231,916	3,005,200	25,476,151	70,291,777
Construction in progress	135,953,173	256,843,692	358,811	1,446,442	394,602,118
Sale and disposal	—	(19,298,256)	(3,267,044)	(8,544,385)	(31,109,685)
Other decrease	—	(8,438,294)	—	(20,974,418)	(29,412,712)
Exchange realignment	(1,643,013)	(19,237,109)	(16,470)	—	(20,896,592)
Closing balance	<u>1,261,094,096</u>	<u>1,277,569,640</u>	<u>36,087,412</u>	<u>168,813,399</u>	<u>2,743,564,547</u>
Accumulated depreciation					
Opening balance	171,201,126	423,967,504	21,849,828	102,717,954	719,736,412
Increase	37,008,600	184,602,321	4,765,410	19,929,009	246,305,340
Write-off	—	(14,821,546)	(2,984,936)	(7,223,667)	(25,030,149)
Other decrease	—	(7,503,964)	—	(18,367,841)	(25,871,805)
Exchange realignment	(135,182)	(6,838,547)	—	—	(6,973,729)
Closing balance	<u>208,074,544</u>	<u>579,405,768</u>	<u>23,630,302</u>	<u>97,055,455</u>	<u>908,166,069</u>
Impairment provision					
Opening balance	9,411,739	34,780,638	—	885,228	45,077,605
Increase	1,101,525	21,521,983	—	6,967	22,630,475
Write-off	—	(2,676,299)	—	(77,832)	(2,754,131)
Closing balance	<u>10,513,264</u>	<u>53,626,322</u>	<u>—</u>	<u>814,363</u>	<u>64,953,949</u>
Net carrying amount					
Closing balance	<u>1,042,506,288</u>	<u>644,537,550</u>	<u>12,457,110</u>	<u>70,943,581</u>	<u>1,770,444,529</u>
Opening balance	<u>939,592,561</u>	<u>573,719,549</u>	<u>14,157,087</u>	<u>67,806,427</u>	<u>1,595,275,624</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Fixed assets (continued)

Note: Detailed information of fixed assets acquired through business combination not under common control are disclosed in Note VI.2. Business combination not involving entities under common control.

The amount of depreciation provided for the six months ended 30 June 2015 was RMB111,108,572 (unaudited) (six months ended 30 June 2014 (unaudited): RMB77,909,847). For the six months ended 30 June 2015, the cost of fixed assets transferred from construction in progress was RMB20,194,590 (unaudited) (six months ended 30 June 2014 (unaudited): RMB82,301,524).

11. Construction in progress

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Power electronic devices & electric drive system test platform construction project	90,058,273	88,054,052
SiC-based power electronic devices lab & fab construction project	10,110,116	1,538,332
Maotangao staff dorm building construction project	2,518,714	5,389,782
Maotangao staff dorm building B interior decoration project	7,140,116	3,269,048
Electron irradiation processing facility construction project	6,762,512	4,203,858
Ningbo railway electric equipment manufacturing site construction project	14,603,093	1,686,197
Others	35,095,160	8,773,669
	<u>166,287,984</u>	<u>112,914,938</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Construction in progress (continued)

For the six months ended 30 June 2015 (unaudited)

	Budget	Opening balance	Increase	Transferred to fixed assets	Exchange realignment	Closing balance	Capital resource	Proportion of budget invested
Power electronic devices & electric drive system test platform construction project	156,100,000	88,054,052	2,004,221	—	—	90,058,273	Self-raised	58%
SiC-based power electronic devices lab & fab construction project	292,650,000	1,538,332	8,571,784	—	—	10,110,116	Self-raised & government grant	3%
Maotangao staff dorm building construction project	121,436,500	5,389,782	7,231,108	10,102,176	—	2,518,714	Self-raised & government grant	99%
Maotangao staff dorm building B interior decoration project	9,371,700	3,269,048	3,871,068	—	—	7,140,116	Self-raised	76%
Electron irradiation processing facility construction project	7,500,000	4,203,858	2,558,654	—	—	6,762,512	Self-raised	90%
Ningbo railway electric equipment manufacturing site construction project	92,700,000	1,686,197	12,916,896	—	—	14,603,093	Self-raised	16%
Others		8,773,669	36,568,523	10,092,414	(154,618)	35,095,160		
		<u>112,914,938</u>	<u>73,722,254</u>	<u>20,194,590</u>	<u>(154,618)</u>	<u>166,287,984</u>		

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Construction in Progress (continued)

2014 (audited)

	Budget	Opening balance	Increase	Transferred to fixed assets	Exchange realignment	Closing balance	Capital resource	Proportion of budget invested
Power electronic devices & electric drive system test platform construction project	156,100,000	—	88,054,052	—	—	88,054,052	Self-raised	56%
Maotangao staff dorm building construction project	121,436,500	85,507,535	34,555,212	114,672,965	—	5,389,782	Self-raised & government grant	99%
8 MW golden sun demonstration project	72,000,000	51,430,000	20,629,269	72,059,269	—	—	Self-raised & government grant	100%
Converter manufacturing plant construction project	165,000,000	1,205,680	3,695,396	4,901,076	—	—	Self-raised	96%
Photovoltaic power generation comprehensive test system construction project	13,500,000	13,091,536	97,863	13,189,399	—	—	Self-raised & government grant	98%
Others		<u>83,888,864</u>	<u>127,087,420</u>	<u>189,779,409</u>	<u>(1,725,771)</u>	<u>19,471,104</u>		
		<u>235,123,615</u>	<u>274,119,212</u>	<u>394,602,118</u>	<u>(1,725,771)</u>	<u>112,914,938</u>		

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Intangible assets

For the six months ended 30 June 2015 (unaudited)

	Land use rights	Software licenses	Patents, licenses and technical know-how	Trademarks	Others	Total
Cost						
Opening balance	194,184,880	77,114,049	271,306,999	—	—	542,605,928
Business combination not under common control (Note)	—	—	255,914,400	127,957,200	30,161,340	414,032,940
Purchase	—	3,567,599	—	—	—	3,567,599
Exchange realignment	56,917	57,288	13,676,567	7,033,600	1,657,920	22,482,292
Closing balance	<u>194,241,797</u>	<u>80,738,936</u>	<u>540,897,966</u>	<u>134,990,800</u>	<u>31,819,260</u>	<u>982,688,759</u>
Accumulated amortisation						
Opening balance	25,328,452	57,584,576	59,534,268	—	—	142,447,296
Increase	1,750,323	3,823,870	14,161,328	1,640,887	3,203,638	24,580,046
Exchange realignment	—	(6,178)	(1,812,129)	46,498	90,780	(1,681,029)
Closing balance	<u>27,078,775</u>	<u>61,402,268</u>	<u>71,883,467</u>	<u>1,687,385</u>	<u>3,294,418</u>	<u>165,346,313</u>
Impairment provision						
Opening balance	—	—	131,627,620	—	—	131,627,620
Closing balance	<u>—</u>	<u>—</u>	<u>131,627,620</u>	<u>—</u>	<u>—</u>	<u>131,627,620</u>
Net carrying amount						
Closing balance	<u>167,163,022</u>	<u>19,336,668</u>	<u>337,386,879</u>	<u>133,303,415</u>	<u>28,524,842</u>	<u>685,714,826</u>
Opening balance	<u>168,856,428</u>	<u>19,529,473</u>	<u>80,145,111</u>	<u>—</u>	<u>—</u>	<u>268,531,012</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Intangible assets (continued)

2014 (audited)

	Land use rights	Software licenses	Patents, licenses and technical know-how	Total
Cost				
Opening balance	195,051,361	66,913,043	224,752,484	486,716,888
Purchase	122,378	10,201,006	—	10,323,384
Internal development	—	—	47,881,406	47,881,406
Exchange realignment	(988,859)	—	(1,326,891)	(2,315,750)
Closing balance	<u>194,184,880</u>	<u>77,114,049</u>	<u>271,306,999</u>	<u>542,605,928</u>
Accumulated amortization				
Opening balance	21,653,575	48,422,732	51,958,817	122,035,124
Increase	3,674,877	9,161,844	9,209,555	22,046,276
Exchange realignment	—	—	(1,634,104)	(1,634,104)
Closing balance	<u>25,328,452</u>	<u>57,584,576</u>	<u>59,534,268</u>	<u>142,447,296</u>
Impairment provision				
Opening balance	—	—	131,627,620	131,627,620
Closing balance	<u>—</u>	<u>—</u>	<u>131,627,620</u>	<u>131,627,620</u>
Net carrying amount				
Closing balance	<u>168,856,428</u>	<u>19,529,473</u>	<u>80,145,111</u>	<u>268,531,012</u>
Opening balance	<u>173,397,786</u>	<u>18,490,311</u>	<u>41,166,047</u>	<u>233,054,144</u>

Note: Detailed information of intangible assets acquired through business combination not under common control are disclosed in Note VI.2. Business combination not involving entities under common control.

The amount of amortisation for the six months ended 30 June 2015 was RMB24,580,046 (unaudited) (six months ended 30 June 2014 (unaudited): RMB10,885,996).

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Goodwill

For the six months ended 30 June 2015 (unaudited)

	Opening balance	Business combination not under common control	Exchange realignment	Closing balance	Impairment provision	Net carrying amount
Dynex Power Inc. ("Dynex")	46,517,958	—	—	46,517,958	46,517,958	—
Ningbo Times	437,432	—	—	437,432	—	437,432
Times Electronics	13,333,101	—	—	13,333,101	—	13,333,101
Specialist Machine Developments (SMD) Limited("SMD")	—	556,347,713	30,581,532	586,929,245	—	586,929,245
	<u>60,288,491</u>	<u>556,347,713</u>	<u>30,581,532</u>	<u>647,217,736</u>	<u>46,517,958</u>	<u>600,699,778</u>

2014 (audited)

	Opening balance	Exchange realignment	Closing balance	Impairment provision	Net carrying amount
Dynex	46,517,958	—	46,517,958	46,517,958	—
Ningbo Times	437,432	—	437,432	—	437,432
Times Electronics	13,333,101	—	13,333,101	—	13,333,101
	<u>60,288,491</u>	<u>—</u>	<u>60,288,491</u>	<u>46,517,958</u>	<u>13,770,533</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Goodwill (continued)

The movements of impairment of goodwill are as follows:

For the six months ended 30 June 2015 (unaudited)

	Opening/ Closing balance
Dynex	<u>46,517,958</u>
2014 (audited)	
	Opening/ Closing balance
Dynex	<u>46,517,958</u>

On 9 April 2015, the Group acquired SMD and its subsidiaries ("SMD Group"), the carrying amount of goodwill was amounting to GBP60,870,885 (equivalent to approximately RMB556,347,713) (unaudited). The detailed calculation of goodwill is disclosed in Note VI. Changes in scope of consolidation. The Group has engaged KPMG Advisory (China) Limited, an independent appraiser, to evaluate the allocation of purchase price of SMD Group. As of the approval date of the financial statements, the valuation has not been completed. The Group determines the fair value of net identifiable assets and contingent consideration according the periodic valuation, and will make adjustment according to the finalised outcome afterwards.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Deferred tax assets/liabilities

Recognised deferred tax assets and liabilities:

	30 June 2015 (unaudited)		31 December 2014 (audited)	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Provision for product quality warranties	827,779,069	124,166,860	809,154,161	121,373,124
Provision for impairment of assets	503,509,256	78,116,841	460,005,259	71,811,054
Government grants	245,513,559	37,737,447	218,521,641	33,699,005
Depreciation differences arising from different depreciation terms in tax laws and accounting	106,233,917	16,094,713	80,858,803	12,218,268
Others	102,913,331	18,079,873	76,886,266	12,281,430
	1,785,949,132	274,195,734	1,645,426,130	251,382,881

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Deferred tax assets/liabilities (continued)

Recognised deferred tax assets and liabilities: (continued)

	30 June 2015 (unaudited)		31 December 2014 (audited)	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Fair value adjustments arising from acquisition of subsidiaries	434,404,280	86,880,856	824,803	164,961
Depreciation differences arising from different depreciation terms in tax laws and accounting	83,342,935	16,668,587	71,046,952	14,209,390
	<u>517,747,215</u>	<u>103,549,443</u>	<u>71,871,755</u>	<u>14,374,351</u>

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Deductible losses	80,659,594	94,831,656
Deductible temporary differences	196,182,822	108,383,956
	<u>276,842,416</u>	<u>203,215,612</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Deferred tax assets/liabilities (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
2015	—	14,172,063
2016	11,403,682	18,015,639
2017	21,541,008	24,191,832
2018	32,118,918	33,472,072
2019	4,980,050	4,980,050
	<u>70,043,658</u>	<u>94,831,656</u>

15. Other non-current assets

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Prepayments for acquisition of land use rights	42,831,600	42,831,600
Prepayments for construction in progress	6,064,035	6,079,951
Prepayments for purchase of machinery and equipment	19,312,886	17,900,725
	<u>68,208,521</u>	<u>66,812,276</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Short-term borrowings

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Credit loans	1,415,174	—
Other loans (Note)	78,833,631	4,385,940
	80,248,805	4,385,940

As at 30 June 2015, the annual interest rate of the above borrowings is 2.00%-7.33% (unaudited) (31 December 2014 (audited): 0.00%-2.82%).

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 30 June 2015 and 31 December 2014 are as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Cash and bank balances	23,918,406	4,719,510
Trade receivables	131,659,515	44,713,132
Other receivables	16,809,912	4,758,704
Prepayments	31,319,914	1,384,020
Inventories	306,155,430	76,119,536
Other current assets	17,329,991	15,642
Long-term equity investments	2,634,577	—
Fixed assets	208,765,916	160,738,604
Construction in progress	11,666,079	3,793,271
Deferred tax assets	639,509	—
	750,899,249	296,242,419

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Bills payable

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Commercial acceptance bills	199,867,040	136,450,000
Bank acceptance bills	1,089,089,731	1,433,199,099
	<u>1,288,956,771</u>	<u>1,569,649,099</u>

18. Trade payables

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 3 months	2,219,519,338	1,327,939,003
3 months to 1 year	297,000,320	366,538,133
1 to 2 years	97,470,662	105,588,086
2 to 3 years	23,811,624	38,917,349
Over 3 years	93,106,616	88,852,990
	2,730,908,560	1,927,835,561
Less: Classified as long-term payables	93,338,286	66,444,529
	<u>2,637,570,274</u>	<u>1,861,391,032</u>

19. Advances from customers

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 1 year	544,319,778	550,053,437
1 to 2 years	75,669,817	34,703,035
2 to 3 years	1,680,026	985,748
Over 3 years	1,122,779	2,267,803
	622,792,400	588,010,023

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Employee benefits payable

For the six months ended 30 June 2015 (unaudited)

	Opening balance	Business combination not under common control	Increase	Decrease	Exchange realignment	Closing balance
Short-term benefits	51,429,108	—	498,165,657	405,720,070	115,351	143,990,046
Benefits after demission (defined contribution plan)	<u>682,933</u>	<u>2,596,964</u>	<u>81,537,378</u>	<u>61,276,849</u>	<u>111,467</u>	<u>23,651,893</u>
	<u><u>52,112,041</u></u>	<u><u>2,596,964</u></u>	<u><u>579,703,035</u></u>	<u><u>466,996,919</u></u>	<u><u>226,818</u></u>	<u><u>167,641,939</u></u>

2014 (audited)

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Short-term benefits	79,416,755	959,175,137	986,993,593	(169,191)	51,429,108
Benefits after demission (defined contribution plan)	<u>9,443,406</u>	<u>117,482,747</u>	<u>126,228,340</u>	<u>(14,880)</u>	<u>682,933</u>
	<u><u>88,860,161</u></u>	<u><u>1,076,657,884</u></u>	<u><u>1,113,221,933</u></u>	<u><u>(184,071)</u></u>	<u><u>52,112,041</u></u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Employee benefits payable (continued)

Details of short-term benefits are as follows:

For the six months ended 30 June 2015 (unaudited)

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Salaries, bonuses, allowances and subsidies	28,640,023	391,608,561	307,897,233	35,273	112,386,624
Staff welfare	—	20,941,701	20,941,701	—	—
Social insurance	873,264	26,815,656	23,513,272	—	4,175,648
Including: Basic medical insurance	97,242	17,744,873	17,310,132	—	531,983
Supplementary medical insurance	625,165	2,845,785	—	—	3,470,950
Work injury insurance	70,650	4,559,968	4,550,410	—	80,208
Maternity insurance	80,207	1,665,030	1,652,730	—	92,507
Housing fund	5,238	33,079,215	32,411,912	—	672,541
Union fund and employee education fund	13,347,093	16,124,739	9,855,628	—	19,616,204
Others	8,563,490	9,595,785	11,100,324	80,078	7,139,029
	<u>51,429,108</u>	<u>498,165,657</u>	<u>405,720,070</u>	<u>115,351</u>	<u>143,990,046</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Employee benefits payable (continued)

Details of short-term benefits are as follows: (continued)

2014 (audited)

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Salaries, bonuses, allowances and subsidies	52,228,725	772,173,927	795,644,760	(117,869)	28,640,023
Staff welfare	—	52,461,739	52,461,739	—	—
Social insurance	844,114	47,863,183	47,834,033	—	873,264
Including: Basic medical insurance	80,872	28,725,161	28,708,791	—	97,242
Supplementary medical insurance	690,945	10,365,549	10,431,329	—	625,165
Work injury insurance	42,473	6,032,648	6,004,471	—	70,650
Maternity insurance	29,824	2,739,825	2,689,442	—	80,207
Housing fund	250,776	51,079,935	51,325,473	—	5,238
Union fund and employee education fund	12,786,141	25,664,377	25,103,425	—	13,347,093
Others	13,306,999	9,931,976	14,624,163	(51,322)	8,563,490
	<u>79,416,755</u>	<u>959,175,137</u>	<u>986,993,593</u>	<u>(169,191)</u>	<u>51,429,108</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Employee benefits payable (continued)

Details of defined contribution plan are as follows:

For the six months ended 30 June 2015 (unaudited)

	Opening balance	Business combination not under common control	Increase	Decrease	Exchange realignment	Closing balance
Basic pension insurance	592,371	2,596,964	56,568,581	56,593,481	111,467	3,275,902
Unemployment insurance	19,850	—	4,775,847	4,637,400	—	158,297
Annuity	70,712	—	20,192,950	45,968	—	20,217,694
	<u>682,933</u>	<u>2,596,964</u>	<u>81,537,378</u>	<u>61,276,849</u>	<u>111,467</u>	<u>23,651,893</u>

2014 (audited)

	Opening balance	Increase	Decrease	Exchange realignment	Closing balance
Basic pension insurance	715,050	86,539,575	86,647,374	(14,880)	592,371
Unemployment insurance	219,116	8,304,266	8,503,532	—	19,850
Annuity	8,509,240	22,638,906	31,077,434	—	70,712
	<u>9,443,406</u>	<u>117,482,747</u>	<u>126,228,340</u>	<u>(14,880)</u>	<u>682,933</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Taxes payable

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Corporate income tax	160,172,768	91,158,247
Value-added tax	38,304,325	28,283,721
Urban maintenance and construction tax and education surcharge	3,267,702	12,586,286
Individual income tax	4,882,344	12,484,671
Withholding tax	36,104,138	—
Others	946,702	2,367,829
	<u>243,677,979</u>	<u>146,880,754</u>

22. Dividends payable

Pursuant to the board of directors' meeting held on 20 March 2015, a proposed final dividends of RMB0.40 (including tax) was paid on each of the 1,175,476,637 shares in issue, amounting to a total cash dividends of RMB470,190,655 (unaudited). The above proposal was approved in the Company's Annual General Meeting held on 5 June 2015. As of the approval date of the financial statements, the Company has fully distributed the above cash dividends.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Other payables

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 1 year	373,274,781	318,173,480
1 to 2 years	19,679,460	15,411,130
2 to 3 years	23,732,579	27,975,783
Over 3 years	8,009,090	12,273,075
	<u>424,695,910</u>	<u>373,833,468</u>

24. Current portion of non-current liabilities

		30 June 2015 (Unaudited)	31 December 2014 (Audited)
Long-term borrowings due within one year	Note V 25	11,475,910	11,315,264
Other non-current liabilities due within one year	28	8,146,384	—
		<u>19,622,294</u>	<u>11,315,264</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Current portion of non-current liabilities (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Credit loans	756,262	—
Mortgaged loans	10,719,648	10,561,558
Other loans	—	753,706
	<u>11,475,910</u>	<u>11,315,264</u>

25. Long-term borrowings

		30 June 2015 (Unaudited)	31 December 2014 (Audited)
Credit loans		945,328	—
Mortgaged loans		14,933,380	19,374,169
Guaranteed loans		899,956,900	—
Other loans	16. Note	—	29,433,624
		<u>915,835,608</u>	<u>48,807,793</u>
Less: Long-term borrowings due within one year	24	<u>11,475,910</u>	<u>11,315,264</u>
		<u>904,359,698</u>	<u>37,492,529</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Long-term borrowings (continued)

Maturity analysis:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Due within 1 year	11,475,910	11,315,264
Due within 2 years	3,866,439	36,731,093
Due within 3 to 5 years	900,493,259	761,436
	<u>915,835,608</u>	<u>48,807,793</u>

As at 30 June 2015, the annual interest rate of the above borrowings is 0.00%-6.56% (unaudited) (31 December 2014 (audited): 0.00%-6.56%).

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Provisions

For the six months ended 30 June 2015 (unaudited)

	Opening balance	Business combination not under common control	Increase	Decrease	Exchange realignment	Closing balance
Provision for product quality warranties	<u>809,726,983</u>	<u>7,243,310</u>	<u>123,480,184</u>	<u>102,608,964</u>	<u>733,692</u>	838,575,205
Less: Provisions due within one year						<u>319,059,982</u>
						<u>519,515,223</u>
2014(audited)						
	Opening balance		Increase	Decrease		Closing balance
Provision for product quality warranties	<u>339,255,907</u>		<u>661,470,202</u>	<u>190,999,126</u>		809,726,983
Less: Provisions due within one year						<u>329,643,512</u>
						<u>480,083,471</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Deferred income

Details of deferred income are listed as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Government grants related to assets	193,167,559	175,627,641
Government grants related to income	52,346,000	42,894,000
	245,513,559	218,521,641
Less: Classified as current liabilities	49,777,204	49,528,830
	195,736,355	168,992,811

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Deferred income (continued)

**Liabilities relevant to government grants as at 30 June 2015 are listed as follows:
(unaudited)**

	Opening balance	Recognised as non-operating increase income	Other movements	Closing balance	Relevant to asset/income
8 MW golden sun demonstration project	51,430,000	13,920,000	(5,445,834)	59,904,166	Asset
Maotangao staff dorm building construction project	20,433,390	—	(227,459)	20,205,931	Asset
Photovoltaic power generation comprehensive test system construction project	10,735,000	—	(1,393,333)	9,341,667	Asset
Industrialization of 200KM EMU AC drive & network control system and ATP control device	10,291,667	—	(950,000)	9,341,667	Asset
(Power electronics) research for power electronic devices & built for production line	6,000,000	—	(200,000)	5,800,000	Asset
High voltage chip packaging and module technology development and industrialization for high speed train application	14,224,000	316,000	—	14,540,000	Income
3.3KV high voltage IGBT for rail transit application project	3,200,000	—	—	3,200,000	Income
(Power electronics) integrated manufacturing technology R&D and industrialization of SiC based power electronic devices	53,170,000	—	—	53,170,000	Asset
The fund of SiC base industrialized construction project	—	17,000,000	—	17,000,000	Asset
Electric control system of large maintenance machinery tamping vehicle project	6,800,000	—	—	6,800,000	Asset
Basic construction compensation	9,207,584	—	(103,456)	9,104,128	Asset
Others	33,030,000	10,636,000	(6,310,000)	37,106,000	Asset/income
	<u>218,521,641</u>	<u>41,872,000</u>	<u>(14,630,082)</u>	<u>245,513,559</u>	

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Deferred income (continued)

Liabilities relevant to government grants as at 31 December 2014 are listed as follows: (audited)

	Opening balance	Increase	Recognised as non-operating income	Other movements	Closing balance	Relevant to asset/income
8 MW golden sun demonstration project	51,430,000	—	—	—	51,430,000	Asset
Maotangao staff dorm building construction project	20,471,300	—	(37,910)	—	20,433,390	Asset
Photovoltaic power generation comprehensive test system construction project	7,980,000	3,420,000	(665,000)	—	10,735,000	Asset
Industrialization of 200KM EMU AC drive & network control system and ATP control device	12,191,667	—	(1,900,000)	—	10,291,667	Asset
High speed train traction drive and brake system project	11,067,000	—	(11,067,000)	—	—	Income
High speed train network control project	37,631,700	—	(37,631,700)	—	—	Income
(Power electronics) research for power electronic devices & built for production line	6,400,000	—	(400,000)	—	6,000,000	Asset
High voltage chip packaging and module technology development and industrialization for high speed train application	14,224,000	—	—	—	14,224,000	Income
3.3KV high voltage IGBT for rail transit application project	3,200,000	—	—	—	3,200,000	Income
(Power electronics) integrated manufacturing technology R&D and industrialization of SIC based power electronic devices	30,290,000	22,880,000	—	—	53,170,000	Asset
Electric control system of large maintenance machinery tamping vehicle project	6,800,000	—	—	—	6,800,000	Asset
Basic construction compensation	9,414,496	—	(206,912)	—	9,207,584	Asset
Others	31,537,300	13,270,000	(9,360,000)	(2,417,300)	33,030,000	Asset/income
	<u>242,637,463</u>	<u>39,570,000</u>	<u>(61,268,522)</u>	<u>(2,417,300)</u>	<u>218,521,641</u>	

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Other non-current liabilities

	Note V	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Present value of contingent consideration (Note)		14,564,882	—
Less: Current portion of non-current liabilities	24	8,146,384	—
		6,418,498	—

Note: The Group has engaged KPMG Advisory (China) Limited, an independent appraiser, to evaluate the fair value of the contingent consideration. On April 9 2015, the fair value of the contingent consideration was GBP1,456,379 (equivalent to approximately RMB13,311,008) (unaudited). Due to the effect of the exchange rate fluctuations and discounting periods, the fair value of the contingent consideration is reevaluated to RMB14,564,882(unaudited) on 30 June 2015.

29. Retained earnings

	For the six months ended 30 June 2015 (Unaudited)	2014 (Audited)
Retained earnings at the end of last year	5,631,283,306	3,882,348,394
Add: Net profit attributable to shareholders of the Parent	1,219,829,085	2,394,818,236
Less: Appropriation to statutory surplus reserve	125,169,878	234,466,501
Cash dividends paid	470,190,655	411,416,823
Retained earnings at the end of the period/year	6,255,751,858	5,631,283,306

The 2014 scheme of profit distribution of the Company has been reviewed and approved in the 2014 Annual General Meeting held on 5 June 2015, pursuant to which a final dividend of RMB0.40 (including tax) was paid on each of the 1,175,476,637 shares in issue, amounting to a total cash dividend of RMB470,190,655 (unaudited).

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Retained earnings (continued)

The 2013 scheme of profit distribution of the Company has been reviewed and approved in the 2013 Annual General Meeting held on 27 June 2014, pursuant to which a final dividend of RMB0.35 (including tax) was paid on each of the 1,175,476,637 shares in issue, amounting to a total cash dividend of RMB411,416,823 (audited).

The board of directors do not recommend the payment of an interim dividend (six months ended 30 June 2014: nil).

30. Revenue and cost of sales

Revenue, also the Group's turnover, includes the net invoiced value of goods sold after deducting returns and trade discounts, which contains an appropriate proportion of construction contract revenue, the value of services rendered, amount determined by proper proportion of construction contract, and the total rental income received.

Revenue is stated as follows:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Revenue from principal operations	5,625,159,398	5,112,414,604
Other operating income	97,801,688	68,002,953
	<u>5,722,961,086</u>	<u>5,180,417,557</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. Revenue and cost of sales (continued)

Cost of sales is stated as follows:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Cost of sales from principal operations	3,382,679,238	3,272,597,274
Other operating costs	77,675,371	51,210,115
	<u>3,460,354,609</u>	<u>3,323,807,389</u>

Details of revenue are listed as follows:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Sale of goods and materials	5,585,491,440	5,097,814,037
Revenue from construction contracts	77,061,083	—
Maintenance income	47,671,031	75,829,555
Technical service income	3,787,962	1,003,560
Rental income	5,567,133	2,789,804
Others	3,382,437	2,980,601
	<u>5,722,961,086</u>	<u>5,180,417,557</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Finance costs

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Interest expenses		
– Interest on bank loans due for full repayment within 5 years	3,113,926	2,002,927
Less: Interest income	33,730,436	20,579,012
Exchange (gains)/losses	(20,437,630)	7,283,524
Others	5,794,957	1,346,981
	<u>(45,259,183)</u>	<u>(9,945,580)</u>

32. Asset impairment losses

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Bad debt losses	29,667,114	72,846,054
Impairment losses of inventories	21,069,677	92,067,072
Impairment losses of fixed assets	5,118,693	1,865,690
	<u>55,855,484</u>	<u>166,778,816</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Investment income

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Income from non-listed investments:		
Long-term equity investments income under the equity method	35,038,335	32,016,196
Bank financial product income	37,761,389	39,772,739
	72,799,724	71,788,935

34. Non-operating income

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Gains on disposal of non-current assets	277,906	287,517
Refunds of value-added tax	43,259,595	71,829,916
Government grants	21,498,994	6,191,956
Unsettled payment	1,622,331	299,678
Penalty income and default compensation income	433,059	105,421
Others	4,039,390	1,889,392
	71,131,275	80,603,880

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Non-operating expenses

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Losses on disposal of non-current assets	131,598	509,143
Losses on penalties and compensation	1,355,668	652,060
Others	4,014,214	6,454
	<u>5,501,480</u>	<u>1,167,657</u>

36. Total profit

The costs and expenses by nature of the Group are as follows:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Consumption of raw materials and semi-finished products	2,978,430,708	2,937,217,144
Inventory movements of finished goods and work in progress	(560,752,331)	(1,009,520,284)
Staff costs	579,703,035	488,205,894
Depreciation	111,108,572	77,909,847
Amortisation	24,580,046	10,885,996
Provision for product quality warranties	123,480,184	205,687,469
Research and development expense	414,194,688	288,624,263

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Income tax expense

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Current income tax expense		
– Mainland China	235,087,221	227,332,524
– Other countries and regions	1,592,595	19,051
	236,679,816	227,351,575
Deferred tax expense	(25,156,256)	(30,420,949)
	211,523,560	196,930,626

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Income tax expense (continued)

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

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Total profit	<u>1,431,472,973</u>	<u>1,051,863,210</u>
Income tax expense at statutory tax rate of 25% (Note)	357,868,243	262,965,803
Effect of different income tax rates for overseas entities	3,203,393	91,931
Tax exemption	(146,056,828)	(106,433,498)
Profits and losses attributable to associates and joint ventures	(5,255,750)	(4,802,430)
Income not subject to tax	—	(1,063,100)
Income tax benefits on research and development expenditure	(25,714,937)	(14,470,981)
Expenses not deductible for tax	1,832,795	700,827
Deductible temporary differences not recognised	25,520,881	58,528,157
Tax losses not recognised	77,513	1,121,768
Utilisation of tax losses carried forward from previous periods	—	(127,736)
Others	<u>48,250</u>	<u>419,885</u>
Tax expense at the Group's effective tax rate	<u>211,523,560</u>	<u>196,930,626</u>

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 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.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the period attributable to ordinary shareholders of the Company divided by the weighted average number of ordinary shares in issue.

The calculation of basic earnings per share is as follows:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Earnings		
Net profit for the period attributable to ordinary shareholders of the Company	<u>1,219,829,085</u>	<u>857,455,315</u>
Shares		
Weighted average number of ordinary shares in issue of the Company	<u>1,175,476,637</u>	<u>1,175,476,637</u>
Basic earnings per share (Yuan/share)	<u>1.04</u>	<u>0.73</u>
Diluted earnings per share (Yuan/share)	<u>1.04</u>	<u>0.73</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Supplementary information to cash flow statement

(1) Supplementary information to cash flow statement

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Adjustment of net profit to cash flows from operating activities:		
Net profit	1,219,949,413	854,932,584
Add: Provision for impairment of assets	55,855,484	166,778,816
Depreciation	111,108,572	77,909,847
Amortisation	24,580,046	10,885,996
Provision of special reserve	112,943	2,645,618
(Gains)/losses from disposal of fixed assets, intangible assets and other long-term assets	(146,308)	221,626
Offset of unrealized profit for inventory from downstream transactions	—	33,210,318
Finance costs	3,113,926	2,002,927
Investment income	(72,799,724)	(71,788,935)
Increase in deferred tax assets	(22,229,587)	(27,424,781)
Increase in deferred tax liabilities	4,577,677	78,479
Increase in inventories	(1,123,651,531)	(1,396,776,728)
Increase in operating receivables	(213,466,258)	(642,883,906)
Increase in operating payables	645,051,348	1,158,626,973
Net cash flows from operating activities	<u>632,056,001</u>	<u>168,418,834</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Supplementary information to cash flow statement (continued)

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

Movements in cash and cash equivalents:

	For the six months ended 30 June 2015 (Unaudited)	2014 (Audited)
Closing balance of cash	3,892,757,309	2,647,816,044
Less: Opening balance of cash	2,647,816,044	3,118,401,874
Net change of cash and cash equivalents	1,244,941,265	(470,585,830)

(2) Acquisition of subsidiaries

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Consideration for acquisition of subsidiaries	1,098,531,331	—
Cash and cash equivalents paid for acquisition of subsidiaries	1,085,220,323	—
Less: Cash and cash equivalents received in the acquisition of subsidiaries	10,413,257	—
Net cash outflow in the acquisition of subsidiaries	1,074,807,066	—

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Supplementary information to cash flow statement (continued)

(3) Cash and cash equivalents

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Cash		
Including: Cash on hand	61,291	44,547
Bank deposits on demand	3,563,024,208	1,922,009,968
Deposits due within 3 months	314,500,000	719,319,059
Security deposit due within 3 months	15,171,810	6,442,470
Closing balance of cash and cash equivalents	<u>3,892,757,309</u>	<u>2,647,816,044</u>

40. Assets with restrictions on title

		30 June 2015 (Unaudited)	31 December 2014 (Audited)
Pledged assets			
Cash and bank balances	Note 1	52,832,156	38,493,751
Fixed assets	Note 2	28,921,816	29,096,352
Intangible assets	Note 3	16,836,443	16,779,524
		<u>98,590,415</u>	<u>84,369,627</u>

Note 1: As at 30 June 2015, the cash and bank balances of RMB35,669,279 (unaudited) (31 December 2014 (audited): RMB21,953,359) is used as security deposits by the Group for acceptance bills from bank. The cash and bank balances of RMB17,162,877 (unaudited) (31 December 2014 (audited): RMB16,540,392) is used as security deposits by the Group for letters of guarantee from bank.

Note 2: As at 30 June 2015, the title of fixed assets with a net carrying amount of RMB28,921,816 (unaudited) (31 December 2014 (audited): RMB29,096,352) was pledged to secure general banking facilities granted to the Group.

Note 3: As at 30 June 2015, the title of land use right with a net carrying amount of RMB16,836,443 (unaudited) (31 December 2014 (audited): RMB16,779,524) was pledged to secure general banking facilities granted to the Group.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VI. CHANGES IN SCOPE OF CONSOLIDATION

1. Subsidiary newly established

Following subsidiary is newly built up during current period:

	Proportion of shareholding
Yueqing CSR Railway Technology Co., Ltd. (“Yueqing CSR Railway”) Note	51%

Note: In April 2015, Yueqing CSR Railway was jointly established by the Company and Lanp Group. The registered capital of Yueqing CSR Railway is RMB30,000,000. The interest held by Company and Lanp Group are 51% and 49% respectively. As of the balance sheet date, the Company has fully paid up to RMB15,300,000, while Lanp Group has not yet injected.

2. Business combination not involving entities under common control

The Group acquired 100% equity interest of SMD Group from independent third parties, through its subsidiary, CSR Times Electric (Hong Kong) Co., Ltd. (“HK Electric”) by means of cash. On 9 April 2015, the Group obtained control of SMD Group and the acquisition date was determined as 9 April 2015.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VI. CHANGES IN SCOPE OF CONSOLIDATION (continued)

2. Business combination not involving entities under common control (continued)

The fair value and carrying amount of identifiable assets and liabilities of SMD Group on the acquisition date are as follows:

	9 April 2015	9 April 2015
	Fair value	Carrying amount
	(Unaudited)	(Unaudited)
Cash and bank balances	10,413,257	10,413,257
Trade receivables	115,694,349	115,694,349
Prepayments	16,467,662	16,467,662
Inventories	212,280,647	212,280,647
Other current assets	5,350,421	5,350,421
Long-term equity investments	2,497,304	2,497,304
Fixed assets	58,576,978	49,622,844
Intangible assets (Note 1)	414,032,940	—
Deferred tax assets	583,265	583,265
Short-term borrowings	(940,026,428)	(940,026,428)
Trade payables	(170,638,512)	(170,638,512)
Advances from customers	(1,903,482)	(1,903,482)
Employee benefits payable	(2,596,964)	(2,596,964)
Taxes payable	(18,908,546)	(18,908,546)
Other payables	(7,824,976)	(7,824,976)
Provisions	(7,243,310)	(7,243,310)
Deferred tax liabilities	(84,597,415)	—
	<u>(397,842,810)</u>	<u>(736,232,469)</u>
		The excess of the aggregate fair value of the consideration over the net identifiable assets acquired
Goodwill acquired in a business combination (Note V. 13)	<u>556,347,713</u>	
	<u>158,504,903</u>	Note 2

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

VI. CHANGES IN SCOPE OF CONSOLIDATION (continued)

2. Business combination not involving entities under common control (continued)

The Group has engaged KPMG Advisory (China) Limited, an independent appraiser, to evaluate the allocation of purchase price of SMD Group. As of the approval date of the financial statements, the valuation has not been completed. The Group determines the fair value of net identifiable assets and contingent consideration (Note 3) according to the periodic valuation, and will make adjustment according to the finalised outcome afterwards.

Note 1: On the acquisition date, the fair value of intangible assets of SMD Group was GBP45,300,000 (equivalent to approximately RMB414,032,940) (unaudited), including technical know-how, trademarks and so on. The fair value of intangible assets was calculated by the method of discounted cash flow.

Note 2: The total consideration of this transaction is GBP120,192,054 (equivalent to approximately RMB1,098,531,331) (unaudited), including the amount of GBP102,849,781 (equivalent to approximately RMB940,026,468) (unaudited) to repay the loans then outstanding SMD Group on the acquisition date and the amount of GBP17,342,273 (equivalent to approximately RMB158,504,903) (unaudited) as the consideration of the equity interest, which includes cash considerations paid amounted to GBP15,885,894 (equivalent to approximately RMB145,193,895) (unaudited) and the fair value of contingent consideration amounted to GBP1,456,379 (equivalent to approximately RMB13,311,008) (unaudited).

Note 3: Pursuant to the purchase agreement, if the performances of the first financial year (2015) and the second financial year (2016) of SMD Group after the acquisition date meet certain performance targets stipulated under the purchase agreement, the Group shall pay contingent consideration up to GBP10,100,000 (equivalent to approximately RMB92,311,980) (unaudited) by using the retention amount of escrow account paid on the acquisition date. Furthermore, if the performances of the first financial year (2015) and the second financial year (2016) of SMD Group after the acquisition date meet certain more stringent performance targets stipulated under the purchase agreement, the Group shall pay certain additional contingent consideration up to GBP7,000,000 (equivalent to approximately RMB63,978,600) (unaudited). On the acquisition date, the fair value of contingent consideration amounted to GBP1,456,379 (equivalent to approximately RMB13,311,008) (unaudited).

For the period from the acquisition date to the balance sheet date, the financial performance and cash flows of SMD Group are listed as follows:

	For the period from 9 April 2015 to 30 June 2015 (Unaudited)
Revenue	101,463,744
Net profit	(17,058,775)
Net cash flows	(40,318,828)

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of subsidiaries of the Company are as follows:

Names of companies	Place of registration/ Principal place of business	Registered capital	Nature of business	Proportion of shareholding		Proportion of votes
				Direct	Indirect	
By newly established or invested						
Ningbo Times	Ningbo Zhejiang	RMB148,826,200	Manufacture industry	100%	—	100%
Times Electronics	Zhuzhou Hunan	RMB80,000,000	Manufacture industry	100%	—	100%
Times Equipment	Zhuzhou Hunan	RMB101,000,000	Manufacture industry	100%	—	100%
Beijing CSR Times Information Technology Co., Ltd. ("Times Information")	Beijing	RMB29,000,000	Manufacture industry	100%	—	100%
Shenyang CSR Times Transportation Equipment Co., Ltd. ("Shenyang Times")	Shenyang Liaoning	RMB56,000,000	Manufacture industry	100%	—	100%
Baoji Times	Baoji Shaanxi	RMB281,655,300	Manufacture industry	85.8%	—	85.8%
Kunming Electric	Kunming Yunnan	RMB3,000,000	Manufacture industry	100%	—	100%
Hangzhou CSR Electric Equipment Co., Ltd. ("Hangzhou Electric")	Hangzhou Zhejiang	RMB75,000,000	Manufacture industry	60%	—	60%
Guangzhou CSR Times Electric Technology Co., Ltd. ("Guangzhou Times")	Guangzhou Guangdong	RMB30,000,000	Manufacture industry	60%	—	60%
HK Electric	Hong Kong	HKD10,000,000	Investment holding	100%	—	100%
Ningbo CSR Electrical Equipment Co., Ltd. ("Ningbo Electric")	Ningbo Zhejiang	RMB10,000,000	Manufacture industry	100%	—	100%
Qingdao Electric	Qingdao Shandong	RMB100,000,000	Manufacture industry	45%	—	45%
Shanghai CSR Railway	Shanghai	RMB50,000,000	Manufacture industry	51%	—	51%
Yueqing CSR Railway	Wenzhou Zhejiang	RMB30,000,000	Manufacture industry	51%	—	51%
CSR Times Electric Australia Pty. Ltd. ("Times Australia")	Australia	AUD290,000	Trading	100%	—	100%
Times Electric USA, LLC ("Times USA")	USA	USD430,000	Trading	100%	—	100%
CSR Times Electric Brasil Ltda. ("Times Brasil")	Brasil	USD741,820	Trading	99%	1%	100%

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

Particulars of subsidiaries of the Company are as follows: (continued)

Names of companies	Place of registration/ Principal place of business	Registered capital	Nature of business	Proportion of shareholding		Proportion of votes
				Direct	Indirect	
By business combination not under common control						
Dynex	Canada	CAD37,096,192	Investment holding	75%	—	75%
Dynex Semiconductor Limited	United Kingdom	GBP15,000,000	Manufacture industry	—	75%	75%
SMD	United Kingdom	GBP1,198,544.07	Investment holding	—	100%	100%
Soil Machine Dynamics Limited	United Kingdom	GBP100	Manufacture industry	—	100%	100%
Bywell Holdings Limited	United Kingdom	GBP85,409.25	Investment holding	—	100%	100%
Specialist Machine Developments (Investment) Limited	United Kingdom	GBP2	Investment holding	—	100%	100%
SMD Offshore Support Limited	United Kingdom	GBP2	Trading	—	100%	100%
Soil Machine Dynamics USA LLC	USA	USD0	Trading	—	100%	100%
SMD Robotics Limited	United Kingdom	GBP1	Trading	—	100%	100%
Soil Machine Dynamics Singapore Pte. Ltd.	Singapore	SGD1	Trading	—	100%	100%
SMD do Brasil Ltd.	Brasil	BRL100	Trading	—	100%	100%
Crossco 236 Limited	United Kingdom	GBP1	Dormant	—	100%	100%
SMD ROVs Limited	United Kingdom	GBP1	Dormant	—	100%	100%
SMD Specialist Vehicles Limited	United Kingdom	GBP1	Dormant	—	100%	100%

Subsidiaries with significant non-controlling interests are as follows:

For the six months ended 30 June 2015 (unaudited)

	Proportion of non-controlling interests	Profits attributable to non-controlling shareholders	Dividends paid to non-controlling shareholders	Accumulated non-controlling interests
Baoji Times	14.2%	3,325,867	(1,943,949)	49,784,684

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

Subsidiaries with significant non-controlling interests are as follows: (continued)

2014 (audited)

	Proportion of non-controlling interests	Profits attributable to non-controlling shareholders	Dividends paid to non-controlling shareholders	Accumulated non-controlling interests
Baoji Times	14.2%	4,097,149	(2,691,236)	48,026,310

The table below demonstrates main financial information of the above subsidiaries. The information demonstrated is before offsetting the transaction amounts and carrying amounts with other entities within the Group:

	Baoji Times
30 June 2015 (unaudited)	
Current assets	1,045,206,486
Non-current assets	179,008,421
Total assets	1,224,214,907
Current liabilities	873,618,540
Non-current liabilities	—
Total liabilities	873,618,540
For the six months ended 30 June 2015 (unaudited)	
Revenue	500,498,947
Net profit	23,421,601
Total comprehensive income	23,421,601
Net cash flows from operating activities	(37,858,138)

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (continued)

1. Interests in subsidiaries (continued)

The table below demonstrates main financial information of the above subsidiaries. The information demonstrated is before offsetting the transaction amounts and carrying amounts with other entities within the Group: (continued)

	Baoji Times
31 December 2014 (audited)	
Current assets	944,471,400
Non-current assets	<u>175,443,271</u>
Total assets	<u>1,119,914,671</u>
Current liabilities	781,701,218
Non-current liabilities	<u>—</u>
Total liabilities	<u>781,701,218</u>
2014 (audited)	
Revenue	783,213,883
Net profit	24,530,417
Total comprehensive income	<u>24,530,417</u>
Net cash flows from operating activities	<u><u>248,353,080</u></u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates

	Place of registration/ Principal place of business	Nature of business	Registered capital	Proportion of shareholding		Accounting method
				Direct	Indirect	
Joint ventures						
Shiling	Zhuzhou Hunan	Manufacture industry	USD14,000,000	50%	—	Equity
SMD-BORD Limited	United Kingdom	Service industry	GBP198	—	50%	Equity
SMD Energy Limited	United Kingdom	Service industry	GBP2	—	50%	Equity
Associates						
Zhuzhou Siemens	Zhuzhou Hunan	Manufacture industry	RMB128,989,000	30%	—	Equity
Xiwu	Changsha Hunan	Manufacture industry	RMB32,500,000	50%	—	Equity

Shiling as an important joint venture of the Group, is one of the suppliers of the fitting equipment products of CRH of the Group.

The table below demonstrates the financial information of Shiling, which is adjusted according to accounting differences and adjusted to the carrying amount of current financial statements:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Current assets	610,580,377	580,303,813
Including: Cash and bank balances	225,758,754	129,187,391
Non-current assets	51,578,151	52,664,828
Total assets	662,158,528	632,968,641
Current liabilities	157,306,005	196,607,422
Non-current liabilities	—	—
Total liabilities	157,306,005	196,607,422
Net assets	504,852,523	436,361,219
Net assets portion based on shareholding	252,426,262	218,180,610
Less: Unrealised profit of downstream trading	36,604,782	36,604,782
Carrying amount of investment	214,432,250	180,186,598

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates (continued)

The table below demonstrates the financial information of Shiling, which is adjusted according to accounting differences and adjusted to the carrying amount of current financial statements:
(continued)

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Revenue	800,271,483	707,541,706
Income tax expense	22,135,668	22,730,478
Net profit	68,491,304	67,600,745
Total comprehensive income	68,491,304	67,600,745
Dividends received	<u>—</u>	<u>—</u>

The table below demonstrates the financial information of joint ventures and associates that are individually insignificant to the Group:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Total carrying amount of investment	60,251,166	54,936,306
Total amounts based on shareholding		
Net profits/(losses)	792,683	(1,784,176)
Total comprehensive income/(losses)	792,683	(1,784,176)

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VIII. FAIR VALUE

1. Assets and liabilities measured at fair value

30 June 2015 (unaudited)

	Inputs used in financial instruments measured at fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Available-for-sale financial asset	—	900,000	—	900,000
Long-term receivables	—	23,174,915	—	23,174,915
Long-term borrowings	—	904,359,698	—	904,359,698
Long-term payables	—	93,338,286	—	93,338,286

31 December 2014 (audited)

	Inputs used in financial instruments measured at fair value			Total
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
Available-for-sale financial asset	—	900,000	—	900,000
Long-term receivables	—	22,082,991	—	22,082,991
Long-term borrowings	—	37,492,529	—	37,492,529
Long-term payables	—	66,444,529	—	66,444,529

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VIII. FAIR VALUE (continued)

2. Fair value evaluation

The carrying amounts and the fair values of financial instruments of the Group other than short-term financial instruments with carrying amounts that reasonably approximate to fair values, are as follows:

	Carrying amount		Fair value	
	30 June 2015 (Unaudited)	31 December 2014 (Audited)	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Financial assets				
Available-for-sale				
financial asset	900,000	900,000	900,000	900,000
Long-term receivables	<u>23,174,915</u>	<u>22,082,991</u>	<u>23,174,915</u>	<u>22,082,991</u>
	Carrying amount		Fair value	
	30 June 2015 (Unaudited)	31 December 2014 (Audited)	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Financial liabilities				
Long-term borrowings	904,359,698	37,492,529	904,359,698	37,492,529
Long-term payables	<u>93,338,286</u>	<u>66,444,529</u>	<u>93,338,286</u>	<u>66,444,529</u>

Management has assessed that the fair values of cash and bank balances, bills receivable, trade receivables, other receivables, other current assets, short-term borrowings, bills payable, trade payables, dividends payable, other payables and current portion of non-current liabilities, etc approximate to their carrying amounts largely due to the short-term maturities of these instruments.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

VIII. FAIR VALUE (continued)

2. Fair value evaluation (continued)

The Group's finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values.

The fair values of long-term receivables, long-term borrowings, long-term payables, etc. have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2015 was assessed to be insignificant.

IX. 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.	Zhuzhou Hunan	Manufacturing	4,264,500,000	50.29%	50.29%

The controlling shareholder of the Parent is CRRC Corporation Limited.

2. Subsidiaries

For details on the subsidiaries of the Company, please refer to Note VII.1. Interests in subsidiaries.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

3. Joint ventures and associates

For details on the joint ventures and associates of the Company, please refer to Note VII.2. Interests in joint ventures and associates.

4. Other related parties

Name of the companies

CSR Ziyang Locomotive Co., Ltd.

Changzhou Ruitai Engineering Machinery Co., Ltd.

CSR Shijiazhuang Rolling Stock Co., Ltd.

Nanjing CSR Puzhen Rapid Transit Vehicles Co., Ltd.

Beijing North Gofront Science Business Co., Ltd.

Guangzhou Rapid Transit Vehicles Equipment Co., Ltd.

CSR Guangdong Rolling Stock Co., Ltd.

CSR Chengdu Locomotive & Rolling Stock Co., Ltd.

CSR Luoyang Locomotive Co., Ltd.

CSR Nanjing Puzhen Rolling Stock Co., Ltd.

CSR Qishuyan Locomotive & Rolling Stock Technology
Research Institute Co., Ltd.

CSR Qishuyan Locomotive Co., Ltd.

CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.

Related party relationships

Corporation controlled by the controlling shareholder of the parent company

Corporation controlled by the controlling shareholder of the parent company

Corporation controlled by the controlling shareholder of the parent company

Corporation controlled by the controlling shareholder of the parent company

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Corporation controlled by the controlling shareholder of the parent company

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the companies	Related party relationships
CSR Sifang Rolling Stock Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Zhuzhou Electric Locomotive Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Ningbo Jiangbei Gofront Herong Electric Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Guangzhou Electrical Locomotive Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Shijiazhuang King Transportation Equipment Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Zhuzhou Electric Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Sichuan Brake Technology Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Yangtze Tongling Rolling Stock Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Changzhou Tech-mark Industrial Co.,Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Hangzhou Rail Transit Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Qingdao CSR Sifang Sales Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Ziyang CSR Electric Locomotive Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Yangtze Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Meishan CSR Fastener Science & Technology Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Ziyang Transmission Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Yuchai Sichuan Engine Stock Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the companies	Related party relationships
Ningbo CSR Urban Rail Transit Equipment Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Finance Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
CSR Investment & Leasing Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Chengdu CSR Electric Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Ziyang CSR Electric Co., Ltd.	Corporation controlled by the controlling shareholder of the parent company
Shanghai Alstom Transport Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
CNR Dalian Locomotive & Rolling Stock Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
Beijing Tianlu Longxiang Rail Transit Equipment Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
Qingdao Sifang Rolling Stock Research Institute Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
CNR Changchun Railway Vehicles Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
Taiyuan Railway Transportation Equipment Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
CNR(Quanzhou) Railway Equipment Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
Beijing CED Railway Electric Tech. Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
Yongji Xinshisu Electric Equipment Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
Tianjin JL Railway Transport Equipment Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
Tangshan Railway Vehicle Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the companies	Related party relationships
Chongqing Changke Track Vehicles Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
CNR Datong Electric Locomotive Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
CNR Lanzhou Locomotive Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
CNR Dalian Locomotive Research Institute Co., Ltd. (Became a related party since 1 June 2015)	Corporation controlled by the controlling shareholder of the parent company
Hunan CSR Special Electric Equipment Co., Ltd.	Corporation controlled by the parent company
Xiangyang China Railway Hongji Engineering Co., Ltd.	Corporation controlled by the parent company
Zhuzhou Electromechanical Technology Co., Ltd.	Corporation controlled by the parent company
Beijing CSR Times Locomotive & Rolling Stock Mechanics Co., Ltd.	Corporation controlled by the parent company
Hunan CSR Times Electric Vehicle Co., Ltd.	Corporation controlled by the parent company
Zhuzhou Times Electric Insulation Co., Ltd.	Corporation controlled by the parent company
Zhuzhou Times Rubber and Plastics Components Development Co., Ltd.	Corporation controlled by the parent company
Xiangyang CSR Electric Machinery Co., Ltd.	Corporation controlled by the parent company
CSR-AVC Thermal Technologies (Zhuzhou) Co., Ltd.	Corporation controlled by the parent company
Zhuzhou Times New Material Technology Co., Ltd.	Corporation controlled by the parent company
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	Corporation controlled by the parent company
Shanghai CSR Hange Shipping Engineering Co., Ltd.	Corporation controlled by the parent company
CRCC Zhuzhou Traction Electrical Equipment Test & Certification Co., Ltd.	Corporation controlled by the parent company
CSR Qishuyan Locomotive & Rolling Works (Became a non-related party since 1 June 2015)	Corporation controlled by CSR Group
South Huitong Co., Ltd. (Became a non-related party since 1 June 2015)	Corporation controlled by CSR Group
Zhuzhou Gofront Braking Equipment Co., Ltd. (Became a non-related party since 1 June 2015)	Corporation controlled by CSR Group
CSR Zhuzhou Electric Locomotive Works (Became a non-related party since 1 June 2015)	Corporation controlled by CSR Group

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

4. Other related parties (continued)

Name of the companies	Related party relationships
Ningbo CSR New Energy Technology Co., Ltd. (Became a non-related party since 1 June 2015)	Corporation controlled by CSR Group
Zhuzhou CSR Special Equipment Technology Co., Ltd. (Became a non-related party since 1 June 2015)	Corporation controlled by CSR Group
Bombardier Sifang (Qingdao) Transportation Ltd.	Joint venture of the controlling shareholder of the parent company
Changzhou Ruiyang Transmission Technology Co., Ltd.	Joint venture of the controlling shareholder of the parent company
SN (Shanghai) Corporation Limited (Became a related party since 1 June 2015)	Joint venture of the controlling shareholder of the parent company
Qingdao Faiveley SRI Rail Brake Co., Ltd. (Became a related party since 1 June 2015)	Joint venture of the controlling shareholder of the parent company
Alstom Qingdao Railway Equipment Co., Ltd. (Became a related party since 1 June 2015)	Associate of the controlling shareholder of the parent company
Tianjin Electric Locomotive Co., Ltd. (Became a related party since 1 June 2015)	Associate of the controlling shareholder of the parent company
Zhuzhou Electric Vehicle Co., Ltd.	Associate of the parent company

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

5. Major transactions between the Group and its related parties

(1) Sales of goods to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	2,637,311,574	2,865,691,049
Parent company	5,367,375	5,168,920
Corporations controlled by the parent company	47,870,033	105,158,247
Corporations controlled by CSR Group	78,632	—
Joint ventures of the controlling shareholder of the parent company	624,489	25,846
Joint ventures of the Company	508,091,850	518,789,234
Associates of the Company	8,582,186	—
	<u>3,207,926,139</u>	<u>3,494,833,296</u>

(2) Purchases of goods from related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	352,194,432	728,280,372
Parent company	123,981	—
Corporations controlled by the parent company	160,035,118	126,958,980
Corporations controlled by CSR Group	433,496	5,468,183
Joint ventures of the controlling shareholder of the parent company	2,550,879	—
Joint ventures of the Company	655,086,984	736,477,226
Associates of the Company	25,584,971	—
	<u>1,196,009,861</u>	<u>1,597,184,761</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(3) Sales of electricity to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	16,377	—
Parent company	155,660	225,726
Corporations controlled by the parent company	201,674	149,142
Corporations controlled by CSR Group	16,136	—
Associates of the Company	—	146,333
	389,847	521,201

(4) Purchases of electricity from related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	360,263	178,881

(5) Sales of fixed assets to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the parent company	540,789	—

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(6) Purchases of fixed assets from related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	6,890	—
Associates of the Company	741,559	—
	748,449	—

(7) Related party leases

As lessor

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	1,810,668	1,626,972
Corporations controlled by the parent company	2,320,000	—
Associates of the Company	238,799	1,217,886
	4,369,467	2,844,858

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(7) Related party leases (continued)

As lessee

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company (Note)	92,404,333	—
Corporations controlled by CSR Group	—	8,900
Associates of the parent company	647,335	256,672
	93,051,668	265,572

Note: As at 25 September 2014, the Company entered into an agreement with CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. to lease all the real estate, property and related facilities and equipment related to the production of high-power IGBT line. According to the lease agreement, the rent (including tax) was RMB17,404,625 per month. Lease term starts from 1 September 2014 and lasts for 3 years.

(8) Technical service income from related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	2,648,212	5,375,567
Parent company	585,496	596,387
Corporations controlled by the parent company	941,093	788,757
Corporations controlled by CSR Group	107,075	—
	4,281,876	6,760,711

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(9) Maintenance services provided to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	11,191,145	61,937,094
Corporations controlled by the parent company	30,229	2,063,995
	<u>11,221,374</u>	<u>64,001,089</u>

(10) Technical service fees paid to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	84,136,000	50,293,521
Corporations controlled by the parent company	80,000	3,962
	<u>84,216,000</u>	<u>50,297,483</u>

(11) Project management service fees paid to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	<u>1,380,000</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(12) Interest income from entrusted loan

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	<u>—</u>	<u>12,900,000</u>

(13) Interest income from monetary deposits

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	<u>3,935,207</u>	<u>—</u>

(14) Remuneration of key management

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Remuneration of key management	<u>2,545,450</u>	<u>2,049,153</u>

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 (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(15) Commitments between the Group and related parties

The material 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

	For the second half of 2015 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	1,252,060,950
Joint venture of the Company	503,462,200
	<u>1,755,523,150</u>

Purchases of goods from related parties

	For the second half of 2015 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	294,798,206
Corporations controlled by the parent company	153,769,662
Joint ventures of the controlling shareholder of the parent company	1,671,274
Joint ventures of the Company	262,466,782
Associates of the Company	33,795,560
	<u>746,501,484</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

(15) Commitments between the Group and related parties (continued)

Operating leases commitment with related parties

	For the second half of 2015 (Unaudited)
Parent company	<u>92,404,333</u>

Receiving technical services from related parties

	For the second half of 2015 (Unaudited)
Parent company	<u>84,136,000</u>

6. Amounts due from and due to related parties

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Trade receivables (including long-term trade receivables):		
Corporations controlled by the controlling shareholder of the parent company	2,087,899,218	949,181,928
Parent company	4,539,086	27,844,865
Corporations controlled by the parent company	154,840,538	161,395,656
Corporations controlled by CSR Group	46,000	150,000
Joint ventures of the controlling shareholder of the parent company	732,656	1,512
Associates of the controlling shareholder of the parent company	317,560	—
Joint ventures of the Company	16,958,323	61,716,239
Associates of the Company	10,041,158	—
	<u>2,275,374,539</u>	<u>1,200,290,200</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Bills receivable:		
Corporations controlled by the controlling shareholder of the parent company	834,431,605	2,109,650,000
Parent company	89,171,768	62,671,768
Corporations controlled by the parent company	77,158,288	84,113,288
Corporations controlled by CSR Group	—	186,623
Joint ventures of the controlling shareholder of the parent company	1,079,235	—
	1,001,840,896	2,256,621,679
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Prepayments:		
The controlling shareholder of the parent company	20,000	40,000
Corporations controlled by the controlling shareholder of the parent company	1,239,084	820,349
Corporations controlled by the parent company	—	892,070
Associates of the Company	35,000,000	20,000,000
	36,259,084	21,752,419

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Other receivables:		
Corporations controlled by the controlling shareholder of the parent company	18,119	—
Parent company	433,717	224,734
Corporations controlled by the parent company	590,789	100,000
Associates of the Company	304,895	—
	<u>1,347,520</u>	<u>324,734</u>
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Monetary deposits:		
Corporations controlled by the controlling shareholder of the parent company (Note)	<u>309,439,777</u>	<u>144,985,190</u>

Note: As at 30 June 2015, the Company's current deposit with CSR Finance Co., Ltd. is amounted to RMB309,439,777 (unaudited) (31 December 2014 (audited): RMB144,985,190). Pursuant to Financial Services Framework Agreement, the maximum daily deposit balance with CSR Finance Co., Ltd. is no more than RMB350,000,000. The interest rate is no less than the interest rate payable by the principal commercial banks in the PRC for comparable deposits and by CSR Finance Co., Ltd. to other members of the CSR Group for comparable deposits.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Trade payables:		
Corporations controlled by the controlling shareholder of the parent company	341,067,565	152,245,864
Parent company	126,212	2,232
Corporations controlled by the parent company	104,575,971	38,825,286
Corporations controlled by CSR Group	1,374,580	1,489,686
Joint ventures of the controlling shareholder of the parent company	7,696,884	8,077,503
Associates of the controlling shareholder of the parent company	1,125,151	—
Joint ventures of the Company	113,075,133	139,594,684
Associates of the Company	28,501,431	—
	597,542,927	340,235,255
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Bills payable:		
Corporations controlled by the controlling shareholder of the parent company	25,080,000	102,080,000
Corporations controlled by the parent company	37,667,040	53,602,220
Corporations controlled by CSR Group	900,000	1,050,000
Joint ventures of the controlling shareholder of the parent company	2,606,421	—
Joint ventures of the Company	120,000,000	150,000,000
Associates of the Company	986,160	—
	187,239,621	306,732,220

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Advances from customers:		
Corporations controlled by the controlling shareholder of the parent company	68,711,425	8,659,388
Corporations controlled by the parent company	1,005	1,539,000
	68,712,430	10,198,388
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Dividends payable:		
Corporations controlled by the controlling shareholder of the parent company	7,752,308	—
Parent company	235,834,280	—
Corporations controlled by the parent company	645,000	—
	244,231,588	—
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Other payables:		
Corporations controlled by the controlling shareholder of the parent company	50,000	1,000,000
Parent company	205,733,853	154,992,700
Corporations controlled by the parent company	886,467	2,253,103
Joint ventures of the controlling shareholder of the parent company	—	500,000
Associates of the Company	85,296	—
	206,755,616	158,745,803

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

IX. RELATED PARTY RELATIONSHIPS AND TRANSACTIONS (continued)

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

The Group'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. 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 the companies controlled by the controlling shareholder of the parent company, companies controlled by the parent, joint ventures of the controlling shareholder of the parent company, joint ventures of the parent, associates with above 30% shares held by the controlling shareholder of the parent company and associates with above 30% shares held by the parent also constituted connected transactions or continuing connected transactions under the provisions of Chapter 14A of the Hong Kong Listing Rules.

X. COMMITMENTS AND CONTINGENCIES

1. Commitments

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Capital commitments:		
Contracted but not provided for	107,755,550	110,473,601
Authorised but not contracted for	672,446,918	645,220,445
	780,202,468	755,694,046
Investment commitments:		
Contracted but not fulfilled	72,500,000	22,500,000
Authorised but not contracted for	935,600,000	—
	1,008,100,000	22,500,000

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

X. COMMITMENTS AND CONTINGENCIES (continued)

2. Contingencies

As of the balance sheet date, except for the events presented in Note V.28. Other non-current liabilities, the Group had no contingencies which should be disclosed.

XI. POST BALANCE SHEET EVENTS

As the two largest shareholders of CRRC Corporation Limited (“CRRC”), CSR Group (“CSR”) and China Northern Locomotive & Rolling Stock Industry (Group) (“CNR”) had entered into a merger agreement on 5 August 2015. According to the merger agreement, CNR will absorb CSR and CSR will be de-registered, CNR will change its name to “CRRC Group” and all assets, liabilities, businesses, employees, contracts, qualifications and all other rights and obligations of CSR will be held by the post-merger corporation (the “Merger”). After the Merger, the post-merger corporation, CRRC Group, will directly hold 54.18% equity interest in CRRC, indirectly hold 0.34% equity interest in CRRC through CSR Capital Company, and indirectly hold 1.39% equity interest in CRRC through Beijing CNR Investment Co., Ltd..

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS

1. Segment reporting

Operating segments

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

Other information

Products and services information

Revenue from external customers

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Rolling stock and its extension products and services	<u>5,722,961,086</u>	<u>5,180,417,557</u>

Geographical information

Revenue from external customers

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Mainland China	5,460,526,756	5,047,787,556
Other countries and regions	<u>262,434,330</u>	<u>132,630,001</u>
	<u>5,722,961,086</u>	<u>5,180,417,557</u>

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

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS (continued)

1. Segment reporting (continued)

Other information (continued)

Geographical information (continued)

Total non-current assets

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Mainland China	2,268,646,741	2,260,164,962
Other countries and regions	1,295,276,002	224,410,980
	<u>3,563,922,743</u>	<u>2,484,575,942</u>

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

Information of major customers

For the six months ended 30 June 2015, the Group's operating revenue (which accounted for more than 10% of the Group's total revenue) of RMB2,711,275,868 (unaudited) was derived from sales to a single customer (including sales to a group of entities which are known to be under the control of that customer) (six months ended 30 June 2014 (unaudited): RMB3,567,596,935 from two customers).

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS (continued)

2. Operating lease

As lessor

According to the lease contracts entered into with lessees, the minimum lease receivables under irrevocable leases are as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 1 year, inclusive	9,539,596	962,897
1 to 2 years, inclusive	484,800	466,800
2 to 3 years, inclusive	—	466,800
	10,024,396	1,896,497

As lessee

Significant operating leases

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 1 year, inclusive	221,438,985	216,877,908
1 to 2 years, inclusive	212,578,229	213,815,680
2 to 3 years, inclusive	36,010,252	140,442,169
Over 3 years	761,841	2,285,524
	470,789,307	573,421,281

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XII. OTHER SIGNIFICANT EVENTS (continued)

3. Other financial information

	30 June 2015 (unaudited)		31 December 2014 (audited)	
	Group	Company	Group	Company
Net current assets	9,886,591,777	8,975,196,046	9,179,211,753	8,478,808,585
Total assets less current liabilities	<u>13,748,785,169</u>	<u>12,420,476,483</u>	<u>11,938,153,567</u>	<u>11,547,532,429</u>

XIII. 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.

Maturity analysis:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 6 months	3,256,793,310	2,465,983,270
6 months to 1 year	1,012,327,995	256,534,331
1 to 2 years	512,082,353	397,207,221
2 to 3 years	34,961,319	25,197,912
Over 3 years	<u>5,048,773</u>	<u>6,354,159</u>
	4,821,213,750	3,151,276,893
Less: Provision for bad debt	<u>126,401,971</u>	<u>99,729,772</u>
	4,694,811,779	3,051,547,121
Less: Classified as long-term receivables	<u>18,571,137</u>	<u>19,847,943</u>
	<u>4,676,240,642</u>	<u>3,031,699,178</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

The movements of provision for bad debt are as follows:

	For the six months ended 30 June 2015 (Unaudited)	2014 (Audited)
Opening balance	99,729,772	38,595,681
Provision in the current period/year	37,109,997	63,798,423
Transferred-in in the current period/year	166,380	—
Reversal in the current period/year	(10,604,178)	(276,807)
Write-off in the current period/year	—	(2,387,525)
Closing balance	<u>126,401,971</u>	<u>99,729,772</u>

Five highest trade receivables (including long-term trade receivables) are listed as follows:

	30 June 2015 (Unaudited)
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	1,094,784,667
CSR Zhuzhou Electric Locomotive Co., Ltd.	622,753,814
Times Electronics	446,594,054
Non-related party	138,383,599
Zhuzhou National Engineering Research Centre of Converters Co., Ltd.	106,498,369
	<u>2,409,014,503</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

Five highest trade receivables (including long-term trade receivables) are listed as follow: (continued)

	31 December 2014 (Audited)
Times Electronics	377,226,963
CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.	278,202,177
CSR Zhuzhou Electric Locomotive Co., Ltd.	235,300,005
CSR Qishuyan Locomotive Co., Ltd.	187,137,679
Non-related party	123,548,658
	<u>1,201,415,482</u>

2. Other receivables

Maturity analysis:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Within 1 year	103,623,040	71,660,143
1 to 2 years	23,062,633	23,307,383
2 to 3 years	24,017,937	31,078,496
Over 3 years	73,766,523	74,915,642
	<u>224,470,133</u>	200,961,664
Less: Provision for bad debt	<u>4,725,028</u>	4,501,538
	<u>219,745,105</u>	<u>196,460,126</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Other receivables (continued)

The movements of provision for bad debt are as follows:

	For the six months ended 30 June 2015 (Unaudited)	2014 (Audited)
Opening balance	4,501,538	2,505,868
Provision in the current period/year	316,244	1,995,670
Reversal in the current period/year	(92,754)	—
Closing balance	<u>4,725,028</u>	<u>4,501,538</u>

The analysis of the net value of other receivables by nature is as follows:

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Customs deposit	27,090,000	40,215,000
Other receivables from subsidiaries	142,100,588	133,573,212
Deposits	8,018,126	8,999,268
Others	<u>42,536,391</u>	<u>13,672,646</u>
	<u>219,745,105</u>	<u>196,460,126</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

2. Other receivables (continued)

Five highest other receivables are as follows:

	30 June 2015 (Unaudited)
Times Information	49,290,376
Kunming Electric	47,890,802
Ningbo Electric	37,600,000
Non-related party 1	27,090,000
Non-related party 2	17,000,000
	<u>178,871,178</u>
	31 December 2014 (Audited)
Times Information	62,220,892
Kunming Electric	47,595,000
Non-related party 1	40,215,000
Ningbo Electric	15,000,000
Non-related party 2	4,159,674
	<u>169,190,566</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Long-term equity investments

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Long-term equity investments using equity method	272,048,840	237,010,505
Long-term equity investments using cost method	1,122,047,990	1,106,747,990
	1,394,096,830	1,343,758,495
Less: Impairment of long-term equity investments	49,699,261	49,699,261
	1,344,397,569	1,294,059,234

Changes in long-term equity investments impairment are as follows:

	For the six months ended 30 June 2015 (Unaudited)	2014 (Audited)
Opening balance	49,699,261	49,699,261
Provision in the current period/year	—	—
Closing balance	49,699,261	49,699,261

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Long-term equity investments (continued)

Long-term equity investments using equity method

For the six months ended 30 June 2015 (unaudited)

	Opening balance	Current period movements		Closing balance
		Investment income under equity method	Cash dividends announced	
Non-listed investments				
Equity method				
A joint venture				
Shiling	180,186,598	34,245,652	—	214,432,250
Associates				
Zhuzhou Siemens	49,577,867	610,651	—	50,188,518
Xiwu	7,246,040	182,032	—	7,428,072
	<u>56,823,907</u>	<u>792,683</u>	<u>—</u>	<u>57,616,590</u>
	<u>237,010,505</u>	<u>35,038,335</u>	<u>—</u>	<u>272,048,840</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Long-term equity investments (continued)

Long-term equity investments using equity method (continued)

2014 (audited)

	Opening balance	Current year movements			Closing balance
		Impact of unrealised profits	Investment income under equity method	Cash dividends announced	
Non-listed investments					
Equity method					
A joint venture					
Shiling	176,232,966	(36,604,782)	51,558,414	(11,000,000)	180,186,598
Associates					
Zhuzhou Siemens	47,029,031	—	2,548,836	—	49,577,867
Xiwu	9,691,451	—	(2,445,411)	—	7,246,040
	<u>56,720,482</u>	<u>—</u>	<u>103,425</u>	<u>—</u>	<u>56,823,907</u>
	<u>232,953,448</u>	<u>(36,604,782)</u>	<u>51,661,839</u>	<u>(11,000,000)</u>	<u>237,010,505</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Long-term equity investments (continued)

Long-term equity investments using cost method

For the six months ended 30 June 2015 (unaudited)

	Opening balance	Changes	Closing balance
Non-listed investments			
Times Electronics	182,977,618	—	182,977,618
Ningbo Times	133,507,255	—	133,507,255
Times Information	29,000,000	—	29,000,000
Times USA	3,187,516	—	3,187,516
Times Equipment	99,561,157	—	99,561,157
Shenyang Times	56,000,000	—	56,000,000
Baoji Times	260,000,000	—	260,000,000
Kunming Electric	3,000,000	—	3,000,000
Hangzhou Electric	33,000,000	—	33,000,000
Guangzhou Times	18,000,000	—	18,000,000
HK Electric	8,098,000	—	8,098,000
Times Australia	1,814,037	—	1,814,037
Ningbo Electric	10,000,000	—	10,000,000
Times Brasil	4,062,679	—	4,062,679
Qingdao Electric	22,500,000	—	22,500,000
Yueqing CSR Railway	—	15,300,000	15,300,000
Shanghai CSR Railway	25,500,000	—	25,500,000
	890,208,262	15,300,000	905,508,262
Listed investments			
Dynex	216,539,728	—	216,539,728
	1,106,747,990	15,300,000	1,122,047,990
Less: Impairment of long-term equity investments	49,699,261	—	49,699,261
	1,057,048,729	15,300,000	1,072,348,729

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015

Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

3. Long-term equity investments (continued)

Long-term equity investments using cost method (continued)

2014 (audited)

	Opening balance	Changes	Closing balance
Non-listed investments			
Times Electronics	182,977,618	—	182,977,618
Ningbo Times	133,507,255	—	133,507,255
Times Information	29,000,000	—	29,000,000
Times USA	3,187,516	—	3,187,516
Times Equipment	34,561,157	65,000,000	99,561,157
Shenyang Times	3,000,000	53,000,000	56,000,000
Baoji Times	160,000,000	100,000,000	260,000,000
Kunming Electric	3,000,000	—	3,000,000
Hangzhou Electric	33,000,000	—	33,000,000
Guangzhou Times	18,000,000	—	18,000,000
HK Electric	8,098,000	—	8,098,000
Times Australia	1,814,037	—	1,814,037
Ningbo Electric	10,000,000	—	10,000,000
Times Brasil	4,062,679	—	4,062,679
Qingdao Electric	—	22,500,000	22,500,000
Shanghai CSR Railway	—	25,500,000	25,500,000
	<u>624,208,262</u>	<u>266,000,000</u>	<u>890,208,262</u>
Listed investments			
Dynex	216,539,728	—	216,539,728
	<u>840,747,990</u>	<u>266,000,000</u>	<u>1,106,747,990</u>
Less: Impairment of long-term equity investments	49,699,261	—	49,699,261
	<u>791,048,729</u>	<u>266,000,000</u>	<u>1,057,048,729</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

4. Revenue and cost of sales

Revenue is also the 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:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Revenue from principal operations	4,813,431,293	4,635,379,113
Other operating income	140,781,634	83,247,199
	<u>4,954,212,927</u>	<u>4,718,626,312</u>

Cost of sales is stated as follows:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Cost of sales from principal operations	2,926,515,114	3,029,934,119
Other operating costs	109,410,967	69,605,341
	<u>3,035,926,081</u>	<u>3,099,539,460</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

4. Revenue and cost of sales (continued)

Details of revenue are listed as follows:

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Sale of goods and materials	4,907,279,840	4,636,437,048
Maintenance income	39,209,493	75,829,555
Technical service income	—	500,000
Rental income	4,235,889	2,863,357
Others	3,487,705	2,996,352
	<u>4,954,212,927</u>	<u>4,718,626,312</u>

5. Investment income

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Income from non-listed investments:		
Long-term equity investment income under the cost method	137,094,738	154,792,313
Long-term equity investment income under the equity method	35,038,335	32,016,196
Bank financial product income	34,983,506	39,772,739
	<u>207,116,579</u>	<u>226,581,248</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

6. Supplementary information to the statement of cash flows

(1) Supplementary information to the statement of cash flows

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Adjustment of net profit to cash flows from operating activities:		
Net profit	1,251,698,774	950,404,855
Add: Provision for impairment of assets	48,449,882	154,200,918
Depreciation	80,073,728	48,043,581
Amortisation	7,942,528	6,877,544
(Gains)/losses from disposal of fixed assets, intangible assets and other long-term assets	(180,721)	312,920
Investment income	(207,116,579)	(226,581,248)
Increase in deferred tax assets	(14,864,139)	(26,470,776)
Increase in inventories	(997,113,022)	(1,284,291,089)
Increase in operating receivables	(176,748,402)	(629,956,003)
Increase in operating payables	560,583,860	1,101,261,996
Net cash flows from operating activities	<u>552,725,909</u>	<u>93,802,698</u>
Movements in cash and cash equivalents:		
	For the six months ended 30 June 2015 (Unaudited)	2014 (Audited)
Closing balance of cash	3,079,702,910	2,214,865,319
Less: Opening balance of cash	<u>2,214,865,319</u>	<u>2,763,730,041</u>
Net change of cash and cash equivalents	<u>864,837,591</u>	<u>(548,864,722)</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

6. Supplementary information to the statement of cash flows (continued)

(2) Cash and cash equivalents

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Cash		
Including: Cash on hand	—	—
Bank deposits on demand	2,779,702,910	1,624,917,803
Deposits due within 3 months	300,000,000	589,947,516
	<u>3,079,702,910</u>	<u>2,214,865,319</u>
Closing balance of cash and cash equivalents	<u>3,079,702,910</u>	<u>2,214,865,319</u>

7. Major transactions between the Company and its related parties

(1) Sales of goods to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Subsidiaries	249,628,629	148,849,391
Corporations controlled by the controlling shareholder of the parent company	2,619,335,416	2,862,817,273
Parent company	5,367,375	5,162,253
Corporations controlled by the parent company	39,187,612	69,522,445
Joint ventures of the Company	508,069,235	518,789,234
Associates of the Company	8,582,186	—
	<u>3,430,170,453</u>	<u>3,605,140,596</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. 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

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Subsidiaries	350,051,021	203,234,517
Corporations controlled by the controlling shareholder of the parent company	326,561,150	714,130,739
Parent company	123,981	—
Corporations controlled by the parent company	155,017,567	106,562,022
Corporations controlled by CSR Group	325,769	4,626,952
Joint ventures of the controlling shareholder of the parent company	2,550,879	—
Joint ventures of the Company	655,086,984	736,477,226
Associates of the Company	24,470,994	—
	<u>1,514,188,345</u>	<u>1,765,031,456</u>

(3) Sales of electricity to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Subsidiaries	228,019	183,425
Corporations controlled by the controlling shareholder of the parent company	16,377	—
Parent company	155,660	150,139
Corporations controlled by the parent company	201,674	149,142
Corporations controlled by CSR Group	16,136	—
Associates of the Company	—	97,191
	<u>617,866</u>	<u>579,897</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

(4) Purchases of electricity from related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Subsidiaries	39,645	—
Corporations controlled by the controlling shareholder of the parent company	<u>360,263</u>	<u>75,588</u>
	<u>399,908</u>	<u>75,588</u>

(5) Sales of fixed assets to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the parent company	<u>540,789</u>	<u>—</u>

(6) Purchases of fixed assets from related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	<u>6,890</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. 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

As lessor

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Subsidiaries	1,934,523	—
Parent company	1,810,668	1,626,972
Corporations controlled by the parent company	2,320,000	—
Associates of the Company	238,799	1,217,886
	<u>6,303,990</u>	<u>2,844,858</u>

As lessee

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company (Note)	92,404,333	—
Corporations controlled by CSR Group	—	8,900
Associates of the parent company	647,335	256,672
	<u>93,051,668</u>	<u>265,572</u>

Note: As at 25 September 2014, the Company entered into an agreement with CSR Zhuzhou Electric Locomotive Research Institute Co., Ltd. to lease all the real estate, property and related facilities and equipment related to the production of high-power IGBT line. According to the lease agreement, the rent (including tax) was RMB17,404,625 per month. Lease term starts from 1 September 2014 and lasts for 3 years.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

(8) Technical service income from related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	2,648,212	5,375,567
Parent company	585,496	596,387
Corporations controlled by the parent company	941,093	788,757
Corporations controlled by CSR Group	107,075	—
	<u>4,281,876</u>	<u>6,760,711</u>

(9) Maintenance services provided to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	11,191,145	61,937,093
Corporations controlled by the parent company	30,229	2,063,995
	<u>11,221,374</u>	<u>64,001,088</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

(10) Technical service fees paid to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	84,136,000	50,293,521
Corporations controlled by the parent company	80,000	3,962
	<u>84,216,000</u>	<u>50,297,483</u>

(11) Project management fees paid to related parties

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	1,380,000	—
	<u>1,380,000</u>	<u>—</u>

(12) Interest income from entrusted loan

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Parent company	—	12,900,000
	<u>—</u>	<u>12,900,000</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

(13) Interest income from monetary deposits

	For the six months ended 30 June 2015 (Unaudited)	For the six months ended 30 June 2014 (Unaudited)
Corporations controlled by the controlling shareholder of the parent company	3,935,207	—

(14) Provide guarantee for related parties

For the six months ended 30 June 2015 (unaudited)

	Amount	Beginning date	Ending date	Fulfilled or not
Subsidiary	479,105,000	2015/4/1	2018/4/1	No
Subsidiary	365,862,000	2015/4/2	2018/4/2	No
Subsidiary	296,174,000	2015/3/31	2018/3/31	No

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

8. Amounts due from and due to related parties

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Trade receivables (including long-term trade receivables):		
Subsidiaries	799,958,009	610,578,843
Corporations controlled by the controlling shareholder of the parent company	2,075,625,554	932,952,242
Parent company	4,520,086	27,824,865
Corporations controlled by the parent company	145,423,922	157,472,750
Associates of the controlling shareholder of the parent company	317,560	—
Joint ventures of the Company	16,931,863	61,716,239
Associates of the Company	10,041,158	—
	3,052,818,152	1,790,544,939

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Bills receivable:		
Subsidiaries	—	181,570
Corporations controlled by the controlling shareholder of the parent company	818,795,710	2,107,550,000
Parent company	89,171,768	62,671,768
Corporations controlled by the parent company	75,184,148	79,282,848
Joint ventures of the controlling shareholder of the parent company	1,079,235	—
	984,230,861	2,249,686,186
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Dividends receivables:		
Subsidiaries	27,000,000	30,000,000
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Prepayments:		
Subsidiaries	23,124,147	58,780,996
The controlling shareholder of the parent company	20,000	40,000
Corporations controlled by the controlling shareholder of the parent company	635,283	71,439
Corporations controlled by the parent company	—	892,070
Associates of the Company	35,000,000	20,000,000
	58,779,430	79,784,505

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Other receivables:		
Subsidiaries	142,100,588	133,573,212
Corporations controlled by the controlling shareholder of the parent company	13,069	—
Parent company	433,717	4,840
Corporations controlled by the parent company	540,789	50,000
Associates of the Company	304,895	—
	<u>143,393,058</u>	<u>133,628,052</u>
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Other non-current assets:		
Subsidiaries	<u>378,119,200</u>	<u>31,000,000</u>
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Monetary deposits:		
Corporations controlled by the controlling shareholder of the parent company (Note)	<u>309,439,777</u>	<u>144,985,190</u>

Note: As at 30 June 2015, the Company's current deposit with CSR Finance Co., Ltd. is amounted to RMB309,439,777 (unaudited) (31 December 2014 (audited): RMB144,985,190). Pursuant to Financial Services Framework Agreement, the maximum daily deposit balance with CSR Finance Co., Ltd. is no more than RMB350,000,000. The interest rate is no less than the interest rate payable by the principal commercial banks in the PRC for comparable deposits and by CSR Finance Co., Ltd. to other members of the CSR Group for comparable deposits.

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Trade payables:		
Subsidiaries	321,978,742	280,081,871
Corporations controlled by the controlling shareholder of the parent company	301,911,565	132,258,548
Parent company	126,212	2,232
Corporations controlled by the parent company	101,091,290	32,071,157
Corporations controlled by CSR Group	620,946	295,176
Joint ventures of the controlling shareholder of the parent company	7,696,884	8,077,503
Associates of the controlling shareholder of the parent company	1,125,151	—
Joint ventures of the Company	113,075,133	139,594,684
Associates of the Company	28,317,946	—
	875,943,869	592,381,171
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Bills payable:		
Subsidiaries	5,200,000	31,330,000
Corporations controlled by the controlling shareholder of the parent company	16,460,000	93,170,000
Corporations controlled by the parent company	35,667,040	48,802,220
Joint ventures of the controlling shareholder of the parent company	2,606,421	—
Joint ventures of the Company	120,000,000	150,000,000
Associates of the Company	986,160	—
	180,919,621	323,302,220

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Advances from customers:		
Subsidiaries	—	206,892
Corporations controlled by the controlling shareholder of the parent company	<u>68,711,425</u>	<u>6,833,747</u>
	<u>68,711,425</u>	<u>7,040,639</u>
	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Dividends payables:		
Corporations controlled by the controlling shareholder of the parent company	7,752,308	—
Parent company	235,834,280	—
Corporations controlled by the parent company	<u>645,000</u>	—
	<u>244,231,588</u>	<u>—</u>

NOTES TO FINANCIAL STATEMENTS (continued)

30 June 2015
Renminbi Yuan

XIII. NOTES TO KEY ITEMS OF THE COMPANY'S FINANCIAL STATEMENTS (continued)

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

	30 June 2015 (Unaudited)	31 December 2014 (Audited)
Other payables:		
Subsidiaries	47,562,240	99,923,607
Corporations controlled by the controlling shareholder of the parent company	50,000	1,000,000
Parent company	205,733,853	154,992,700
Corporations controlled by the parent company	886,467	2,253,103
Joint ventures of the controlling shareholder of the parent company	—	500,000
Associates of the Company	85,296	—
	254,317,856	258,669,410

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

MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the unaudited interim consolidated financial statements of the Group and the notes related thereon set out in this interim report.

REVENUE

	For the six months ended 30 June	
	2015 (RMB million)	2014 (RMB million)
Locomotives	841.4	715.5
Electric Multiple Units	2,418.4	2,830.2
Metropolitan rail transportation equipment	836.6	503.7
Railway maintenance vehicles related products	734.6	529.4
Train operation safety equipment	249.1	209.8
Key electric part and component products	295.8	261.6
Marine engineering products and others	347.1	130.2
Total revenue	<u>5,723.0</u>	<u>5,180.4</u>

The Group's revenue increased by RMB542.6 million from RMB5,180.4 million for the six months ended 30 June 2014 to RMB5,723.0 million for the six months ended 30 June 2015, representing a growth rate of 10.5%.

In the first half of 2015, other than a decrease in the revenue from electric multiple unit, the Group's other product series all recorded increases in revenue at various growth levels. Among these, the strongest growth in revenue was from metropolitan rail transportation equipment with an increase of RMB332.9 million as compared with last year. Such increase was mainly due to the delivery of metropolitan rail transportation equipment such as Fuzhou line 1 and Nanchang line 1. The second strongest growth in revenue was recorded in marine engineering products and other products with an increase of RMB216.9 million as compared with last year. Such increase was mainly due to the delivery of products such as marine engineering products and comprehensive performance testing platform for train units.

COST OF SALES

The Group's cost of sales increased by RMB136.6 million from RMB3,323.8 million for the six months ended 30 June 2014 to RMB3,460.4 million for the six months ended 30 June 2015. The increase in cost of sales was mainly due to the combined effects of the increase in the Group's revenue and the change of product sales mix.

GROSS PROFIT

As a result of the above factors, the Group's gross profit increased by RMB406.0 million from RMB1,856.6 million for the six months ended 30 June 2014 to RMB2,262.6 million for the six months ended 30 June 2015. The Group's gross profit margin increased from 35.8% for the six months ended 30 June 2014 to 39.5% for the six months ended 30 June 2015. The change in gross profit margin was mainly due to the change of product sales mix and our continuous efforts to reduce cost.

SELLING EXPENSES

The Group's selling expenses decreased by RMB31.4 million from RMB274.8 million for the six months ended 30 June 2014 to RMB243.4 million for the six months ended 30 June 2015. The decrease in selling expenses was mainly due to the Group's stringent control over expenses.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by RMB184.8 million from RMB494.2 million for the six months ended 30 June 2014 to RMB679.0 million for the six months ended 30 June 2015. The increase in administrative expenses was mainly due to the increase in business operations and increase in research and development expenses of the Group in the first half of 2015.

FINANCE COSTS

The Group's finance costs decreased by RMB35.4 million from negative RMB9.9 million for the six months ended 30 June 2014 to negative RMB45.3 million for the six months ended 30 June 2015. The decrease in finance costs was mainly due to the fluctuation of exchange rates.

ASSET IMPAIRMENT LOSSES

The Group's asset impairment losses decreased by RMB110.9 million from RMB166.8 million for the six months ended 30 June 2014 to RMB55.9 million for the six months ended 30 June 2015. The decrease in asset impairment losses was mainly due to the decrease in provision for impairment loss of inventories and provision for bad debts made by the Group as compared to the same period of last year.

INVESTMENT INCOME

The Group's investment income increased by RMB1.0 million from RMB71.8 million for the six months ended 30 June 2014 to RMB72.8 million for the six months ended 30 June 2015. The increase in investment income was mainly due to an increase in the investment income from the Group's joint venture.

NON-OPERATING INCOME

The Group's non-operating income decreased by RMB9.5 million from RMB80.6 million for the six months ended 30 June 2014 to RMB71.1 million for the six months ended 30 June 2015. The decrease in non-operating income was mainly due to a decrease in the refunds of value-added tax as compared to the same period of last year.

NON-OPERATING EXPENSES

The Group's non-operating expenses increased by RMB4.3 million from RMB1.2 million for the six months ended 30 June 2014 to RMB5.5 million for the six months ended 30 June 2015. The increase in non-operating expenses was mainly due to an increase in the expenses of damages as compared to the same period of last year.

TOTAL PROFIT

The Group's total profit increased by RMB379.6 million from RMB1,051.9 million for the six months ended 30 June 2014 to RMB1,431.5 million for the six months ended 30 June 2015. The increase in total profit was mainly due to an increase in revenue and a decrease in asset impairment losses. The Group's sales profit margins for the six months ended 30 June 2014 and for the six months ended 30 June 2015 were 20.3% and 25.0%, respectively.

INCOME TAX EXPENSE

The Group's income tax expense increased by RMB14.6 million from RMB196.9 million for the six months ended 30 June 2014 to RMB211.5 million for the six months ended 30 June 2015.

The Company, Times Equipment, Ningbo Times and Times Electronics were accredited as high-tech enterprises and received approval from the relevant government authority that they were subject to the preferential corporate income tax rate of 15%.

Baoji Times and Kunming Electric were subject to the preferential tax policy of the Development of West Region in China, and they were entitled to be taxed at the preferential corporate income tax rate of 15%.

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

The effective income tax rates of the Group for the six months ended 30 June 2014 and six months ended 30 June 2015 were 18.7% and 14.8%, respectively.

NET PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE PARENT

Net profit attributable to the shareholders of the Parent increased by RMB362.3 million from RMB857.5 million for the six months ended 30 June 2014 to RMB1,219.8 million for the six months ended 30 June 2015. The Group's sales net profit margins for the six months ended 30 June 2014 and for the six months ended 30 June 2015 were 16.6% and 21.3%, respectively.

NON-CONTROLLING INTERESTS

Non-controlling interests increased by RMB2.6 million from negative RMB2.5 million for the six months ended 30 June 2014 to RMB0.1 million for the six months ended 30 June 2015. The increase in non-controlling interests was mainly due to the decrease in losses incurred by the Group's non-wholly owned subsidiaries during this Reporting Period as compared to the same period of last year.

EARNINGS PER SHARE

Earnings per share increased by RMB0.31 from RMB0.73 for the six months ended 30 June 2014 to RMB1.04 for the six months ended 30 June 2015.

LIQUIDITY AND SOURCE OF CAPITAL

Cash flow and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. For the six months ended 30 June 2015, the Group's cash and cash equivalents at end of period were RMB3,892.8 million. The net cash and cash equivalents of the Group increased by RMB1,244.9 million, which was mainly due to an increase in net cash inflows from operating activities and net cash inflows from financing activities of the Group in the first half of 2015.

Net cash inflow from operating activities

For the six months ended 30 June 2015, the Group's net cash inflow from operating activities was approximately RMB632.1 million, and cash inflow items of operating activities were mainly cash receipts of RMB5,427.9 million from sale of goods or rendering of services.

Net cash outflow from investing activities

For the six months ended 30 June 2015, the Group's net cash outflow from investing activities was approximately RMB289.0 million. Cash outflow items of investing activities were mainly cash payments of RMB1,074.8 million for acquisition of subsidiaries.

Net cash inflow from financing activities

For the six months ended 30 June 2015, the Group's net cash inflow from financing activities was approximately RMB902.4 million. Cash inflow items of financing activities were mainly cash received from borrowings of RMB945.5 million.

Liquidity

The Group adopts the capital budget management which is in line with the Group's credit policies to manage its capital through management of receipt and payments of funds. 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:

	30 June 2015 (Unaudited) (RMB million)	31 December 2014 (Audited) (RMB million)
Capital commitments:		
Contracted but not provided for	107.8	110.5
Authorised but not contracted for	672.4	645.2
	780.2	755.7
Investment commitments:		
Contracted but not fulfilled	72.5	22.5
Authorised but not contracted for	935.6	—
	1,008.1	22.5

Borrowings

The following table sets out the Group's borrowings as at the dates indicated:

	30 June 2015 (Unaudited) (RMB million)	31 December 2014 (Audited) (RMB million)
Short-term borrowings	80.2	4.4
Long-term borrowings (inclusive of long-term borrowings due within one year)	915.8	48.8
Total	996.0	53.2

The Group's mainly borrowings were floating rate loans.

Maturity analysis:

	30 June 2015 (Unaudited) (RMB million)	31 December 2014 (Audited) (RMB million)
Due within 1 year	91.7	15.7
Due within 2 years	3.9	36.7
Due within 3 to 5 years	900.4	0.8
	996.0	53.2

As at 30 June 2015, the annual interest rate of the above borrowings was 0.00%-7.33% (unaudited) (31 December 2014: 0.00%-6.56% (audited)).

Pursuant to the relevant borrowing agreement, the loans amounting to RMB78.8 million (unaudited) on 30 June 2015 (31 December 2014 (audited): RMB33.8 million) are secured by floating charges over certain assets. The carrying amounts of such assets as at 30 June 2015 and 31 December 2014 were RMB750.9 million and RMB296.2 million, respectively.

Pledge

As at 30 June 2015, the Group pledged its fixed assets with a carrying amount of RMB28.9 million (31 December 2014: RMB29.1 million) to obtain bank borrowings.

As at 30 June 2015, the Group pledged its intangible assets with a carrying amount of RMB16.8 million (31 December 2014: RMB16.8 million) to obtain bank borrowings.

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 growth and maximize shareholders' value.

The Group manages its capital structure and makes adjustment to it in light of changes in economic conditions and the risk characteristics of underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements.

The Group monitors capital management by using the gearing ratio, which is net debt divided by the adjusted capital plus net debt. Net debt includes the net amount of all borrowings, bills payable, trade payables, advances from customers, employee benefits payable, taxes payable (excluding income tax payable), dividends payable and other payables less cash and cash equivalents. The Group's gearing ratio was 15.2% as at 31 December 2014 and 19.8% as at 30 June 2015.

Business combination not involving entities under common control

The Group acquired 100% equity interest of SMD Group from independent third parties, through its subsidiary, HK Electric by means of cash. On 9 April 2015, the Group obtained control of SMD Group and the acquisition date was determined as 9 April 2015.

The Group has engaged KPMG Advisory (China) Limited, an independent appraiser, to evaluate the allocation of purchase price of SMD Group. As of the approval date of the financial statements, the valuation has not been completed. The Group determines the fair value of net identifiable assets and contingent consideration according the periodic valuation, and will make adjustment according to the finalised outcome afterwards.

The total consideration of this transaction is GBP120.1 million (equivalent to approximately RMB1,098.5 million) (unaudited), including the amount of GBP102.8 million (equivalent to approximately RMB940.0 million) (unaudited) to repay the loans then outstanding of SMD Group on the acquisition date and the amount of GBP17.3 million (equivalent to approximately RMB158.5 million) (unaudited) as the consideration of the equity interest, which includes cash considerations paid amounted to GBP15.8 million (equivalent to approximately RMB145.2 million) (unaudited) and the fair value of contingent consideration amounted to GBP1.5 million (equivalent to approximately RMB13.3 million) (unaudited).

Business combination not involving entities under common control (continued)

Pursuant to the purchase agreement, if the performances of the first financial year (2015) and the second financial year (2016) of SMD Group after the acquisition date meet certain performance targets stipulated under the purchase agreement, the Group shall pay contingent consideration up to GBP10.1 million (equivalent to approximately RMB92.3 million) (unaudited) by using the retention amount of escrow account paid on the acquisition date. Furthermore, if the performances of the first financial year (2015) and the second financial year (2016) of SMD Group after the acquisition date meet certain more stringent performance targets stipulated under the purchase agreement, the Group shall pay certain additional contingent consideration up to GBP7.0 million (equivalent to approximately RMB64.0 million) (unaudited). On the acquisition date, the fair value of contingent consideration amounted to GBP1.5 million (equivalent to approximately RMB13.3 million) (unaudited).

Contingent liabilities

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

There is no other contingency which should be disclosed except for the event presented below.

On 9 April 2015, the Group acquired SMD Group. The fair value of the contingent consideration derived from the acquisition was GBP1.5 million (equivalent to approximately RMB13.3 million) (unaudited). Due to the effect of the exchange rate fluctuations and discounting periods, the fair value of the contingent consideration is reevaluated to RMB14.6 million (unaudited) on 30 June 2015. The Group has engaged KPMG Advisory (China) Limited, an independent appraiser, to evaluate the fair value of the contingent consideration.

Market risks

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

Foreign currency risk

The businesses of the Group are principally located in China. While most of the transactions of the Group are denominated in RMB, certain of its sales and purchases are denominated in foreign currencies including the Great British Pound, Japanese yen and United States dollar. Fluctuations of exchange rates of RMB against such foreign currencies can affect the Group's results of operations.

As at 30 June 2015, the borrowings of the Group were settled in foreign currencies such as the Great British Pound and Euros. Fluctuations of exchange rates of RMB against such foreign currencies can affect the Group's results of operations.

Policy risk

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

Post balance sheet events

The Company has been notified by its controlling shareholder, CRRC, that the two largest shareholders of CRRC, CSG and CNRG have entered into a merger agreement on 5 August 2015. Pursuant to such merger agreement, CNRG will merge with CSG by way of absorption, CSG will be de-registered, CNRG will be renamed as "CRRC Group" (中國中車集團公司) and all assets, liabilities, businesses, employees, contracts, qualifications and all other rights and obligations of CSG will be held by the post-merger corporation (the "Merger"). After the Merger, the post-merger corporation, CRRC Group, will directly hold 54.18% equity interest in CRRC, indirectly hold 0.34% equity interest in CRRC through CSR Capital Company, and indirectly hold 1.39% equity interest in CRRC through Beijing CNR Investment Co., Ltd.

OTHER INFORMATION

I. CORPORATE GOVERNANCE

1. CORPORATE GOVERNANCE

The Company places great emphasis on the superiority, stability and reasonability of its corporate governance.

During the Reporting Period ended 30 June 2015, the Company has fully complied with all the code provisions of the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules, except for code provision A.6.7 as set out below.

Mr. Ma Yunkun, a non-executive Director of the Company, did not attend the Annual General Meeting due to his other important commitments and therefore deviated from the requirement of code provision A.6.7.

2. Securities transactions by Directors

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

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

3. Board of Directors

The Board currently 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 and an executive Director; Mr. Li Donglin and Mr. Yan Wu are executive Directors; Mr. Ma Yunkun is a non-executive Director; 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 is one less than the number required by the Articles for the time being, the Company hopes to search for a suitable candidate to fill the vacancy as soon as possible.

The Directors have strictly complied with their undertakings, and have been honest, trust-worthy and diligent in the performance of their duties. The number of Directors and the composition of the Board complied with the requirements of the relevant laws and regulations. There was no nonworking relationship between the members of the Board (especially between the Chairman and the General Manager), including financial, business, family or other material relevant relationship.

4. Supervisory Committee

The Supervisory Committee currently consists of four supervisors, among whom Mr. Xiong Ruihua is the chairman of the Supervisory Committee, Messrs. Pang Yiming and Zhou Guifa are employee supervisors, and Mr. Geng Jianxin is an external independent supervisor.

The number of members of the Supervisory Committee of the Company is one less than the number required by the Articles for the time being, the Company hopes to search for a suitable candidate to fill the vacancy as soon as possible.

5. Audit Committee

The Company's Audit Committee was established in October 2005. It currently consists of five Directors, four of whom are independent non-executive Directors. The members of the Audit Committee are Mr. Chan Kam Wing, Clement, Mr. Pao Ping Wing, Mr. Gao Yucai, Ms. Liu Chunru and Mr. Ma Yunkun. Mr. Chan Kam Wing, Clement is the chairman of the Audit Committee.

The main responsibilities of the Audit Committee are to consider and supervise financial reporting processes and internal control procedures of the Company, to guide and supervise internal audits, and to make suggestions on the appointment or change of external auditor.

The Company's Audit Committee discussed the accounting principles adopted by the Group with the management, and has reviewed the Group's unaudited financial report for the six months ended 30 June 2015 prepared based on the PRC Accounting Standards and was satisfied that the unaudited results complied with applicable accounting standards, the relevant regulatory and legal requirements and that adequate disclosure had been made.

II. INTERNAL CONTROL

The Company has a sound organization system of internal control. The Board is responsible for the establishment, improvement and effective implementation of the internal control system. Guided by the Audit Committee and the Risk Control Committee of the Board, the Audit and Risk Control Department carries out inspection, supervision and evaluation for internal controls of the Company in respect of important control functions such as financial control, operational control, compliance control and risk management, supervises and timely rectifies internal control deficiencies and effectively controls operating risks.

During the Reporting Period, the Company's internal control system was proved to be stable and reliable and the Company continued to deepen its risk management. During the first half of the year, the Company, relied on its new group-based audit management model, aimed at audit value-added services and put great emphasis on the close-circuit management of internal control to ensure full implementation of rectification for internal control deficiencies. The Company also continued to deepen its risk management and implemented specific measures to tackle and avoid material risk events. Special audits on items such as services and procurement were carried out in various aspects to enhance management, reduce cost and achieve higher cost-effectiveness. The Company can ensure to withstand changes in business and external environment from financial, operational and risk management perspectives, so as to safeguard the Company's assets and interests of shareholders.

III. INTERESTS AND SHORT POSITIONS OF DIRECTORS, SUPERVISORS AND THE GENERAL MANAGER IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2015, none of the Directors, supervisors, the general manager of the Company or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Part XV of the SFO, or were required to be recorded in a register kept pursuant to section 352 of the SFO, or were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

IV. STRUCTURE OF SHARE CAPITAL

The Company's share capital structure as at 30 June 2015 was as follows:

Shareholder	Type	Number of Shares	Approximate % of issued share capital as at 30 June 2015
CSR ZELRI	Domestic shares	589,585,699	50.16%
CSR ZELRI (Hong Kong)	H shares	1,612,500	0.13%
Qishuyan Works	Domestic shares	9,380,769	0.80%
CSR Investment & Leasing	Domestic shares	9,380,769	0.80%
CSR Zhuzhou	Domestic shares	10,000,000	0.85%
CRCCE	Domestic shares	9,800,000	0.83%
Shares in public circulation	H shares	<u>545,716,900</u>	<u>46.43%</u>
Total		<u>1,175,476,637</u>	<u>100%</u>

V. SUBSTANTIAL SHAREHOLDERS

Interests or short positions owned by the following parties in the shares or underlying shares of the Company required to be disclosed pursuant to the requirements under Divisions 2 and 3 of Part XV of the SFO as at 30 June 2015 were as follows:

Name of substantial shareholder	Number of shares held	Capacity	Approximate % of domestic shares share capital	Approximate % of H shares share capital	Approximate % of issued share capital
CSR ZELRI (Note 1)	589,585,699 (L)	Beneficial owner	93.86%	—	50.16%
	1,612,500 (L)	Interest in controlled entity	—	0.29%	0.13%
CRRC (Note 2)	608,966,468 (L)	Interest in controlled entity	96.95%	—	51.81%
	1,612,500 (L)	Interest in controlled entity	—	0.29%	0.13%
Schroders Plc	32,762,573 (L)	Investment manager	—	5.99%	2.79%
JPMorgan Chase & Co. (Note 3)	1,401,844 (L)	Beneficial owner	—	0.26%	0.12%
	23,000 (S)	Beneficial owner	—	0.00%	0.00%
	436,500 (L)	Investment manager	—	0.08%	0.04%
	30,819,986 (Lending pool shares)	Custodian corporation/ Approved lending agent	—	5.63%	2.62%

V. SUBSTANTIAL SHAREHOLDERS (continued)

Name of substantial shareholder	Number of shares held	Capacity	Approximate % of domestic shares share capital	Approximate % of H shares share capital	Approximate % of issued share capital
BlackRock, Inc. (Note 4)	29,968,009 (L)	Interest in controlled entity	—	5.48%	2.55%
	137,500 (S)	Interest in controlled entity	—	0.03%	0.01%
Fortis Investment Management SA (Note 5)	23,544,000 (L)	Investment manager	—	4.30%	2.00%
Value Partners Group Limited (Note 6)	28,134,000 (L)	Interest in controlled entity	—	5.14%	2.39%

Note:

(L) = Long position, (S) = Short position

- (1) CSR ZELRI held its interests in the 1,612,500 H shares of the Company through its wholly-owned subsidiary CSR ZELRI (Hong Kong).
- (2) CRRC is interested in 100% of the registered capital of CSR ZELRI, CSR Zhuzhou and CSR Investment & Leasing. Accordingly, CRRC is deemed under the SFO to be interested in the shares held by each of CSR ZELRI, CSR Zhuzhou and CSR Investment & Leasing.
- (3) As stated in the corporate substantial shareholder notice filed by JPMorgan Chase & Co, 23,000 H shares are short positions in underlying shares under equity derivative interests. JPMorgan Chase & Co. held its interests in the shares of the Company (including underlying shares under equity derivative interests) through its wholly-owned corporations and subsidiaries.
- (4) As stated in the corporate substantial shareholder notice filed by BlackRock, Inc., 315,500 H shares and 9,500 H shares are long positions and short positions in underlying shares under equity derivative interests, respectively. BlackRock, Inc. held its interests in the shares of the Company (including underlying shares under equity derivative interests) through its wholly-owned corporations and subsidiaries.
- (5) As stated in the corporate substantial shareholder notice filed by Fortis Investment Management SA, it held its interests in the shares of the Company through its wholly-owned corporations.
- (6) As stated in the corporate substantial shareholder notice filed by Value Partners Group Limited, it held its interests in the shares of the Company through its wholly-owned corporations.

VI. PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

VII. DISTRIBUTION OF DIVIDENDS

1. Distribution plan and implementation of 2014 final dividends

Having been considered and approved by shareholders of the Company at the Annual General Meeting, the Company has distributed a cash dividend of RMB0.40 per share (inclusive of applicable taxes) as final dividend for 2014 to all shareholders whose names appeared on the register of members of the Company on 16 June 2015, based on the Company's total share capital of 1,175,476,637 shares in issue, a total amount of approximately RMB470.2 million was paid. Implementation of the dividend distribution plan was completed before the approval of this interim report.

2. 2015 interim profit distribution plan

The Board did not recommend the distribution of interim dividend for the six months ended 30 June 2015.

VIII. CONNECTED TRANSACTIONS

During the Reporting Period, the Company has strictly complied with the relevant requirements in respect of connected transactions under Chapter 14A of the Listing Rules, and has established a set of mechanism to protect non-controlling shareholders' interests. The auditor of the Company has provided quarterly reports to independent non-executive Directors on transactions conducted between the Group and CSRG Group and CRRC Corporation Group. In addition, the independent non-executive Directors have conducted quarterly reviews on the terms of the framework agreement for mutual supply of products and ancillary services entered into between the Company (on behalf of itself and/or its subsidiaries) and CSRG (on behalf of itself and/or its subsidiaries but excluding the Group) on 12 August 2013 for a term of three years commencing from 1 January 2014 to 31 December 2016, and the review opinions regarding such transactions (including the same type of transactions between the Company and CRRC (on behalf of itself and/or its subsidiaries but excluding the Group)) would be disclosed to shareholders by way of announcements.

IX. EMPLOYEES AND TRAINING

As at 30 June 2015, the Company had 6,683 employees, and the total amount of remuneration for the six months ended 30 June 2015 was approximately RMB579.7 million. The Group's remuneration policy for its employees takes into account the individuals' position, work performance, qualifications and competence. The Group offers salary increments and bonuses to employees with outstanding performance. The bonus scheme is discretionary and is determined by the Directors with reference to the performance of the staff and the Group's operation results.

The Company approved the share appreciation rights scheme (the "Scheme") at the annual general meeting of 2012, and approved an aggregate of approximately 9,868,000 units of share appreciation rights ("SARs") to a total of up to 262 eligible recipients, subject to the satisfaction of the granting conditions. During the Reporting Period, no SARs were granted by the Company to the eligible recipients under the Scheme.

During the Reporting Period, the Company launched series of program through grouping and classification of talents, including Team Building of Human Resources Department, Training for IPD Project Managers, English Training for International Talent Group, Training for Middle to Senior Management of Leading Enterprises. The two internal training programs, namely Happy Learning Class (樂學講堂) and Expert Forum (專家講壇), continued to hold two to three classes each month and the results of these classes were satisfactory. Combining with its need to formulate strategies pursuant to the 13th Five Year Plan, the Company has strived to promote its development as a learning-based organization. The learning program has five intakes (10 industrial units in total) in the form of learning through action, focusing on the formulation of strategies pursuant to the 13th Five Year Plan.

X. UPDATE ON CERTAIN EVENTS

On 5 February 2015, the Company entered into an agreement with the shareholders of SMD and SMD's wholly-owned subsidiary SMD Investment regarding the Group's acquisition of the entire issued share capital of SMD. The agreement also stated that the Company shall procure SMD Investment to acquire shareholdings of SMD Investment's subsidiary Bywell Holdings from several natural persons. After completion, SMD, SMD Investment, and Bywell Holdings and its subsidiaries will become the wholly-owned subsidiaries of the Company.

HK Electric, a wholly-owned subsidiary of the Company, as the purchaser has completed the abovesaid acquisition on 9 April 2015. For details of the acquisition, please refer to the discloseable transaction announcements of the Company dated 5 February 2015 and 9 April 2015.

BASIC CORPORATE INFORMATION

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

GLOSSARY

“AGM” or “Annual General Meeting”	The annual general meeting for year 2014 of the Company held on Friday, 5 June 2015
“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 85.8% owned subsidiary of the Company
“Board” or “Board of Directors”	The board of Directors of the Company
“Bywell Holdings”	Bywell Holdings Limited, a private limited company, incorporated in England and Wales, an indirect subsidiary of SMD
“Company”	Zhuzhou CSR Times Electric Co., Ltd.
“CNR”	Formerly known as 中國北車股份有限公司 (China CNR Corporation Limited)
“CNRG”	中國北方機車車輛工業集團公司 (China Northern Locomotive and Rolling Stock Industry (Group) Corporation), a PRC state-owned enterprise
“CRCCE”	中國鐵建高新裝備股份有限公司 (CRCC High-Tech Equipment Co., Ltd.), formerly known as 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, a holding subsidiary of China Railway Construction Corporation Limited, whose A shares and H shares are listed on the Shanghai Stock Exchange and the Main Board of the Hong Kong Stock Exchange, respectively
“CRRC”	中國中車股份有限公司 (CRRC Corporation Limited), a joint stock limited liability company incorporated in the PRC whose A shares and H shares are listed on the Shanghai Stock Exchange and the Main Board of the Hong Kong Stock Exchange, respectively. CRRC holds the entire equity interest in the Parent Company
“CRRC Corporation Group”	CRRC and its subsidiaries
“CSR”	Formerly known as 中國南車股份有限公司 (CSR Corporation Limited)
“CSR Investment & Leasing”	南車投資租賃有限公司 (CSR Investment & Leasing Co., Ltd.), a wholly-owned subsidiary of CRRC and one of the Promoters
“CSR ZELRI (Hong Kong)”	CSR Zhuzhou Electric Locomotive Research Institute (Hong Kong) Co., Limited, a wholly-owned subsidiary of CSR ZELRI
“CSR Zhuzhou”	南車株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Co., Ltd.), a wholly-owned subsidiary of CRRC, one of the Promoters
“CSRG”	中國南車集團公司 (CSR Group), a PRC state-owned enterprise

“CSRG Group”	CSRG and its subsidiaries
“Director(s)”	The director(s) of the Company
“Dynex”	Dynex Power Inc., a joint stock company established pursuant to the laws of Canada and listed on the TSX Venture Exchange, Toronto, Canada (stock code: DNX) and a 75% owned subsidiary of the Company. Dynex Semiconductor Limited is its only operating subsidiary and its headquarters is located in Lincoln, England
“Electric Multiple Units”	Electric Multiple Units power converters, auxiliary power supply equipment and control systems
“Group”	The Company and its subsidiaries
“Guangzhou Times”	廣州南車時代電氣技術有限公司 (Guangzhou CSR Times Electric Technology Co., Ltd.), a 60% owned subsidiary of the Company
“Hangzhou Electric”	杭州南車電氣設備有限公司 (Hangzhou CSR Electric Equipment Co., Ltd.), a 60% owned subsidiary of the Company
“HK Electric”	CSR Times Electric (Hong Kong) Co., Limited, a wholly-owned subsidiary of the Company
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“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 Hong Kong Stock Exchange
“Locomotives”	Locomotives power converters, auxiliary power supply equipment and control systems
“Metropolitan rail transportation equipment”	Metropolitan rail transportation equipment power converters, auxiliary power supply equipment and control systems
“Model Code”	Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“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 CRRC, one of the Promoters of the Company and also the controlling shareholder of the Company

“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”	Promoters of the Company, being CSR ZELRI, CSR Zhuzhou, CSR Investment & Leasing, Qishuyan Works and CRCCE
“Qingdao Electric”	青島南車電氣設備有限公司 (Qingdao CSR Electrical Equipment Co., Ltd.), a 45% owned subsidiary of the Company
“Qishuyan Works”	中國南車集團戚墅堰機車車輛廠 (CSRQ Qishuyuan Locomotive & Rolling Stock Works), a wholly-owned subsidiary of CSRQ and one of the Promoters
“Reporting Period”	The six-month period ended 30 June 2015
“SASAC”	State-owned Assets Supervision and Administration Commission of the State Council
“SFO”	Securities and Futures Ordinance, cap.571, Laws of Hong Kong
“Shanghai CSR Railway”	上海南車軌道交通科技有限公司 (Shanghai CSR Railway Transportation Technology Co., Ltd.), a 51% owned subsidiary of the Company
“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, 40% by Mitsubishi Electric Corporation and 10% by Mitsubishi Electric (China) Ltd.
“SMD”	Specialist Machine Developments (SMD) Limited, a private limited company incorporated in England and Wales, a wholly-owned subsidiary of HK Electric
“SMD Group”	SMD and its subsidiaries
“SMD Investment”	Specialist Machine Developments (Investment) Limited, company with limited liability registered in England and Wales, a subsidiary of SMD

“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