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)

2010 Annual Report

Contents

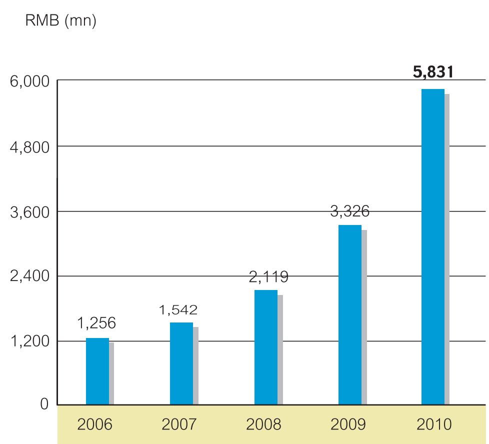
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME HIGHLIGHTS

	Year Ended 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Revenue	**5,831,278**	3,325,593	2,119,323	1,541,804	1,255,926
Profit from operations	**946,193**	616,568	489,766	332,579	317,013
Profit before tax	**992,033**	624,225	496,842	344,911	302,581
Profit for the year	**853,676**	534,389	423,337	347,477	302,268
Non-controlling interests	**1,533**	3,508	1,037	88	5,497
Profit attributable to owners of the parent	**852,143**	530,881	422,300	347,389	296,771
Basic earnings per share attributable to ordinary equity holders of the parent (RMB)	**RMB0.79**	RMB0.49	RMB0.39	RMB0.32	RMB0.44

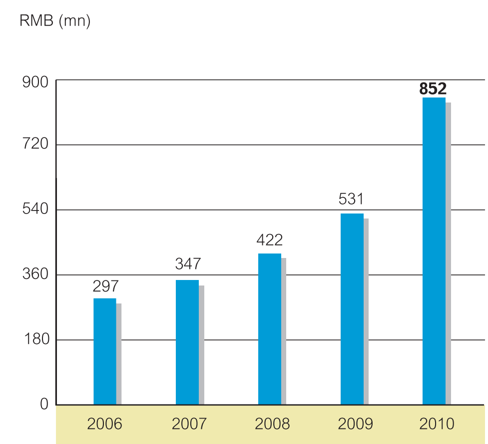
CONSOLIDATED STATEMENT OF FINANCIAL POSITION HIGHLIGHTS

	As at 31 December				
	2010 RMB'000	2009 RMB'000	2008 RMB'000	2007 RMB'000	2006 RMB'000
Total assets	**7,012,349**	5,400,711	4,169,122	3,644,903	3,788,256
Total liabilities	**2,509,610**	1,522,092	741,453	483,453	940,246
Net assets	**4,502,739**	3,878,619	3,427,669	3,161,450	2,848,010

2006-2010 Growth in revenue



2006-2010 Growth in net profit



Chairman's Report

Dear Shareholders,

I am pleased to present the Annual Report of the Company for the year ended 31 December 2010. On behalf of the Board of Directors, I would like to express my gratitude to all shareholders for your continual care and support.

PERFORMANCE REVIEW

The Group's turnover in 2010 amounted to RMB5,831.3 million (2009: RMB3,325.6 million), representing an increase of 75.3% from the previous year. Profit attributable to owners of the parent amounted to RMB852.1 million (2009: RMB530.9 million). Basic earnings per share amounted to RMB0.79 (2009: RMB0.49), representing an increase of 61.2% year-on-year.

BUSINESS REVIEW

During the "Eleventh Five-year Plan" period (2006-2010), the Ministry of Railways focused on increasing the investment in railway line construction. The construction of the high-speed railways of Wuhan-Guangzhou, Zhengzhou-Xi'an, Shanghai-Hangzhou and Shanghai-Nanjing was completed in succession and put into operation. The track-laying work for the whole line of the Beijing-Shanghai high-speed railway was also completed.

During the "Eleventhth Five-year Plan" period, foreseeing the rapid development of railways, the Company sought financing by listing on the stock market, greatly enhanced the level in research and development, manufacturing and testing, and seized the opportunities at the right time. As a result, the Company recorded a rapid growth in sales revenue and net profit at a compound annual growth rate (CAGR) of 40% and 30% respectively, with a continuously steady dividend distribution to shareholders.

In 2010, the electrical systems for 7200kW high-power electric locomotives, for which the Company owns the intellectual property, were delivered continuously throughout the year. The Company also signed the orders for the electrical systems for new generation 350km/h electric multiple units, which were worth RMB5.1 billion. The two major core industry segments (i.e. electrical systems of locomotives and electric multiple units) realized the effect of large-scale industrial development and contributed to the vast majority of the Company's annual revenue. For other operations of the mainline railway market, the Company also recorded a steady development. Following the smooth operation of Shanghai Metro Line 1 and the opening of Fangshan Line, a model project adopting domestically manufactured subway trains, the traction system used in the metropolitan rails, which the Company self-developed, was fully recognized by the industry.

In respect of new business areas and key component application, the Company made significant progress and developed several types of high-end high-power converters applied in the area of non-railway. The 6-inch IGBT production line was put into operation, while the high-power IGBT module, which the Company self-developed, underwent a trouble-free operation for more than 150,000km in the subway running test.

In 2010, in terms of the set up of management system, the Company fully utilized the means of information, greatly enhancing the Company's management efficiency.

OUTLOOK

During the "Twelfth Five-year Plan" period, with a large number of new-built railways, including the Beijing-Shanghai high-speed railway, being put into operation successively, investment in railways will greatly turn to the procurement of equipment of locomotive and rolling stock. With its relevant products of the electrical systems of locomotives and electric multiple units, the Company will, to a great extent, benefit from the peak of this round of procurement. The Company will extend its operations to the three major industry markets, including mainline railways, metropolitan rails and extension of core technology in order to gradually form a diversified industry structure.

In 2011, the Company will deliver electrical systems for high-speed electric multiple units in large volumes. The Company will also continue to strengthen the research and development and improve innovation capability. High-power locomotive products still have greater market demand. In respect of new business areas, the Company will further step up efforts in research and development of new technologies, as well as fundamental frontier technology. The Company will also seek a breakthrough in both technology and market areas while continuously enhancing the level of design, process and product technology and stepping up efforts in market development.

Looking ahead, the Group is confident that it will seize the opportunities and speed up development, actively creating greater value for its shareholders. The Group will share the results of the Company's rapid development with its shareholders.

Ding Rongjun
Chairman of the Board
Changsha, Hunan, PRC
25 March 2011

Management Discussion and Analysis

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

Revenue

	2010 (RMB million)	2009 (RMB million)
Train power converters, auxiliary power supply equipment and control systems	**4,134.5**	1,891.0
Including:		
Locomotives	**2,350.7**	1,024.4
Electric Multiple units	**1,471.5**	711.4
Metropolitan rail transportation equipment	**312.3**	155.2
Train operation safety equipment	**410.9**	233.0
Railway maintenance vehicles related products	**566.7**	483.4
Train-borne electrical systems	**5,112.1**	2,607.4
Power semiconductor components	**462.2**	452.4
Sensors and related products	**100.7**	71.8
Other products	**156.3**	194.0
Electric components	**719.2**	718.2
Total revenue	**5,831.3**	3,325.6

Revenue increased by RMB2,505.7 million or 75.3% from RMB3,325.6 million for the year ended 31 December 2009 to RMB5,831.3 million for the year ended 31 December 2010. In 2010, the Group recorded revenue from other products of RMB156.3 million, which mainly comprised of revenue from products such as bus bar and PCB.

Except for the decrease in revenue from other products, fast growth was seen in revenue from various product categories of the Group in 2010. Among these, the Group recorded the strongest growth of RMB2,243.5 million from revenue of train power converters, auxiliary power supply equipment and control systems. Such increase was mainly due to the delivery of electrical systems for 7,200kW locomotives, 300km EMUs and 6M2T EMUs. The second strongest growth of RMB177.9 million was recorded in train operation safety equipment, mainly due to the delivery of monitoring device for 7200kW locomotives. The third strongest growth of RMB83.3 million was recorded in railway maintenance vehicles related products, mainly due to the revenue of RMB205.4 million contributed by Baoji Times established in March 2009.

Cost of sales

Cost of sales increased by 73.7% from RMB2,118.3 million for the year ended 31 December 2009 to RMB3,679.2 million for the year ended 31 December 2010. The increase in cost of sales was mainly due to the combined effect of the growth in the Group's revenue and the change in sales structure.

Gross profit

Due to the above reasons, the Group's gross profit increased by 78.3% from RMB1,207.3 million for the year ended 31 December 2009 to RMB2,152.1 million for the year ended 31 December 2010. The Group's gross profit margin increased from 36.3% for the year ended 31 December 2009 to 36.9% for the year ended 31 December 2010. The change in gross profit margin was mainly due to the change in product structure and the economies of scale of our products.

Other income and gains

Other income and gains increased by 8.6% from RMB88.7 million for the year ended 31 December 2009 to RMB96.3 million for the year ended 31 December 2010. The increase in other income and gains was mainly attributable to the increase in the one-off government subsidy as compared to last year.

Selling and distribution costs

Selling and distribution costs of the Group increased by 70.0% to RMB345.7 million (representing 5.9% of the Group's revenue for the whole year) for the year ended 31 December 2010 from RMB203.4 million (representing 6.1% of the Group revenue for the whole year) for the year ended 31 December 2009. The selling and distribution costs increased with the increase in business operations. However, as the Group recorded stronger growth in revenue in 2010, the Group's sales and distribution costs as a percentage share of annual revenue decreased by 0.2% over last year.

Administration expenses

The Group's administration expenses increased by 63.0% to RMB755.6 million (representing 13.0% of the annual revenue of the Group) for the year ended 31 December 2010 from RMB463.6 million (representing 13.9% of the annual revenue of the Group) for the year ended 31 December 2009. The increase in administration expenses was due to the increase in business operation and in research and development costs of the Group in 2010. However, as the Group recorded stronger growth in revenue in 2010, the Group's administration expenses as a percentage share of annual revenue decreased by 0.9% over last year.

Other expenses

The Group's other expenses increased by 1507.2% to RMB200.9 million for the year ended 31 December 2010 from RMB12.5 million for the year ended 31 December 2009. The increase in other expenses was due to the fact that the Group has carried out a thorough tidying-up for its assets status in 2010, and has made reasonable impairment provision for assets with indication of impairment. Among these, the Group made impairment provision of RMB131.6 million for an intangible asset, a proprietary technology introduced from abroad in 2007, which had indication of impairment.

Profit from operations

The Group's profit from operations increased by 53.5% to RMB946.2 million for the year ended 31 December 2010 from RMB616.6 million for the year ended 31 December 2009, which was mainly due to the increase in revenue.The Group's operating profit margins for the years ended 31 December 2009 and 2010 were 18.5% and 16.2% respectively.

Finance costs

Finance costs increased by 43.8% to RMB11.5 million for the year ended 31 December 2010 from RMB8.0 million for the year ended 31 December 2009. The increase in finance costs was mainly due to the fact that interest expenses for 2010 increased as compared with 2009. Finance costs mainly comprised of interests incurred for the short-term financing bonds newly issued during the year.

Profit before tax

Based on the above factors, the Group's profit before tax increased by 58.9% to RMB992.0 million for the year ended 31 December 2010 from RMB624.2 million for the year ended 31 December 2009.

Income tax expenses

The Group's income tax expenses increased by 54.1% to RMB138.4 million for the year ended 31 December 2010 from RMB89.8 million for the year ended 31 December 2009. The Group's income tax expenses comprised current effective income tax of RMB158.2 million and deferred tax credit of RMB19.8 million.

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

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

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

The Group's deferred tax credit of RMB19.8 million, which was included in the income statement of the year, was mainly based on the temporary differences in provision for warranties and government grants calculated in accordance with the applicable tax rates during different periods.

The effective tax rates of the Group for the years ended 31 December 2009 and 31 December 2010 were 14.4% and 13.9% respectively.

Net profit attributable to owners of the parent

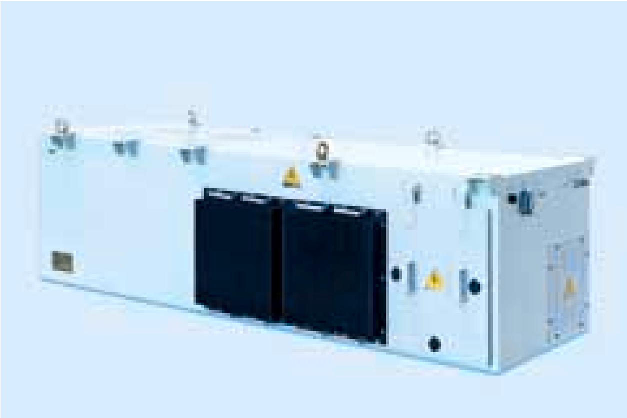
The Group's net profit attributable to owners of the parent increased by 60.5% to RMB852.1 million for the year ended 31 December 2010 from RMB530.9 million for the year ended 31 December 2009. The Group's net profit margins for the years ended 31 December 2009 and 2010 were 16.0% and 14.6% respectively.

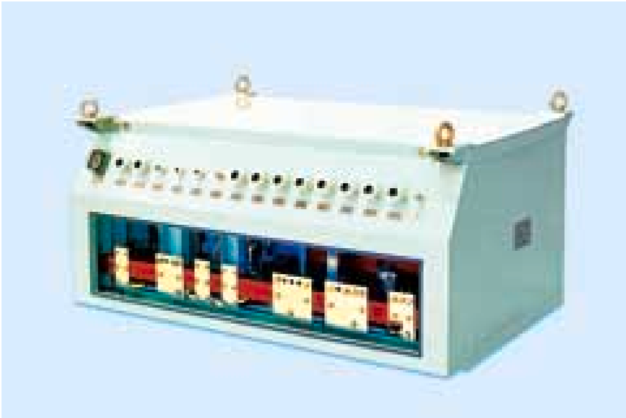
Profit attributable to non-controlling interests

Profit attributable to non-controlling interests decreased to RMB1.5 million for the year ended 31 December 2010 from RMB3.5 million for the year ended 31 December 2009. The decrease in profit attributable to non-controlling interests was mainly due to the Group's further investment of RMB100.0 million in Baoji Times during the year.

Earnings per share

Earnings per share increased RMB0.30 to RMB0.79 for the year ended 31 December 2010 from RMB0.49 for the year ended 31 December 2009.





Liquidity and source of capital

Cash flows and working capital

The Group's needs for working capital were mainly satisfied by cash generated from operations. Cash and cash equivalents of the Group increased by RMB521.0 million in 2010, mainly due to strengthened management of funds recovery by the Group and the increase in net cash inflow for operating activities.

Net cash flows from operating activities

The Group's net cash flows from operating activities increased from RMB452.4 million for the year ended 31 December 2009 to RMB 754.3 million for the year ended 31 December 2010, mainly due to the strengthened management of funds recovery by the Group.

Net cash flows used in investing activities

For the year ended 31 December 2010, the Group's net cash flows used in investing activities was approximately RMB389.0 million. Cash outflow items in investing activities represents mainly the payment for the acquisition of property, plants and equipment of RMB229.9 million.

Net cash flows from financing activities

For the year ended 31 December 2010, the Group's net cash flows from financing activities amounted to approximately RMB155.7 million. Cash inflow for financing activities mainly represents short-term financing bonds of RMB500.0 million newly issued during the year. Cash outflow for financing activities mainly represents payment of dividends of RMB211.4 million and repayment of borrowings of RMB154.9 million.

Liquidity

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

Commitments

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

	As at 31 December	
	2010	2009
	(RMB million)	(RMB million)
Contracted but not provided:		
Property, plant and equipment	**189.2**	234.7
Other intangible assets	**2.3**	106.5
Total	**191.5**	341.2

Indebtedness

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

	As at 31 December	
	2010	2009
	(RMB million)	(RMB million)
Interest-bearing bank and other borrowings	**503.1**	124.1

Gearing ratio

The Group monitors capital using the gearing ratio, which is net debt divided by capital plus net debt. Net debt includes interest-bearing bank and other borrowings, trade payables, bills payable and other payables and accruals, less cash and cash equivalents. Capital represents equity attributable to owners of the parent. The Group's gearing ratio was 5% as at 31 December 2009 and 11% as at 31 December 2010. The change in the gearing ratio was mainly attributed to the change in the net debt of the Group from RMB189.0 million for the year ended 31 December 2009 to RMB534.3 million for the year ended 31 December 2010.

Contingent liabilities

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

Market risks

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

Policy risk

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

Directors, Supervisors and Senior Management

Directors

Ding Rongjun, aged 50, the Chairman of the Board and an executive Director. Mr. Ding joined the Parent Group in August 1984 and has held the positions of deputy director and project manager of the scientific research division of CSR ZELRI from 1999 to 2000, and deputy director, deputy chief engineer and chief engineer of CSR ZELRI between 2000 and 2005. Mr. Ding graduated from Southwest Jiaotong University with a bachelor degree in Electric Locomotive in 1984 and from Changsha Railway Institute with a master degree in Traffic Information and Control in 1998. He later graduated from Hunan University with a master degree in Management Science and Engineering in 1999 and later graduated from Central South University with a doctor degree in Intelligent Control and Pattern Recognition in 2008. Mr. Ding served as the president of the Company from September 2005 to December 2007, and then joined CSR ZELRI as the secretary of the Party and deputy director in December 2007. He had been the secretary of the Party and vice general manager of CSR ZELRI from January 2008 to December 2008, general manager and vice secretary of the Party of CSR ZELRI from December 2008 to July 2009. He has been an executive director, general manager and vice secretary of the Party of CSR ZELRI since July 2009. Mr. Ding has been a director of Times New Materials since December 2008. Mr. Ding has been an executive Director of the Company since September 2005, and has been the Chairman of the Board since December 2007.

Deng Huijin, aged 54, the Vice Chairman of the Board and a non-executive Director. Mr. Deng joined CSR ZELRI in 1982 and has held various positions as assistant engineer, engineer and senior engineer. He served as deputy director of CSR ZELRI from November 1995 to December 2005, deputy Party secretary, secretary of Party discipline inspection commission and chairman of the labour union of CSR ZELRI from December 2005 to November 2008, and has been Party secretary and deputy general manager of CSR ZELRI and a director of Times New Materials since December 2008. Mr. Deng graduated from Dalian Railway Institute with a bachelor degree in Engineering in 1982. Mr. Deng was appointed as a non-executive Director of the Company in August 2009 and has been the Vice Chairman of the Board since April 2010.

Li Donglin, aged 44, an executive Director and the general manager. Mr. Li is the executive Director of Times Electronics, Ningbo Times, Times Equipment, Times Information, Shenyang Times, Hangzhou Electric and Kunming Electric. He is the Chairman of the Board of Baoji Times and a Director of Dynex. Mr. Li joined CSR ZELRI in July 1989 and has held the positions of a deputy chief engineer, deputy general manager of the rail transport department, director of the manufacturing centre, deputy general manager of the sales and marketing centre of CSR ZELRI. Mr. Li graduated from Southwest Jiaotong University with a bachelor degree in Electric Traction and Drive Control in 1989. Mr. Li had served as the chief marketing officer from September 2005 to December 2007. He was the vice president and secretary of the Party of the Company from December 2007 to December 2009, and has been the general manager of the Company since January 2010. Mr. Li was appointed as an executive Director of the Company in April 2010.

Yan Wu, aged 44, a non-executive Director and secretary of the Board. Mr. Yan is a senior engineer. Mr. Yan joined CSR ZELRI in 1992. Mr. Yan graduated from Northwestern Polytechnical University with a bachelor degree in Electro-Technology in 1989 and a master degree in Aircraft Navigation and Control in 1992. Mr. Yan served as head of technical standards department of the Company from September 2005 to December 2007, and was appointed as head of the investor relations department of the Company in January 2007. Mr. Yan was appointed as the general secretary of the National Electric Traction Equipment and System Standardization Technical Committee since September 2005. Mr. Yan was appointed as the secretary to the Board of the Company in December 2007 and as a non-executive Director of the Company in December 2010.

Ma Yunkun, aged 57, a non-executive Director. Mr. Ma has more than 10 years of experience in business management and was the chairman of the board of directors and general manager of Kunming China Railway from 2004 to December 2009 and has been the chairman of the board and secretary to the Party committee of Kunming China Railway from January 2010. Mr. Ma held the positions of deputy director of Kunming Machine Factory from 1994 to 2003 and the director and general manager of Kunming China Railway from 2003 to 2004. Mr. Ma was appointed as a non-executive Director of the Company in September 2005.

Gao Yucai, aged 70, an independent non-executive Director. Mr. Gao is a senior engineer and has more than 20 years of experience in the urban rail transportation industry. Mr. Gao was deputy director of the Beijing Public Utility Bureau from 1983 to 1990 and general manager of Beijing Metro Corporation from 1990 to 2001. Mr. Gao is a commissioner of the China Communication and Transportation Association ("CCTA") and deputy director of the urban rail transportation committee of CCTA. Mr. Gao graduated from the PLA Engineering Academy (one of the predecessors of PLA University of Science and Technology) in 1966. Mr. Gao was appointed as an independent non-executive Director of the Company in November 2006.

Chan Kam Wing, **Clement**, aged 53, an independent non-executive Director. Mr. Chan is a certified public accountant in Hong Kong, a member of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Mr. Chan possesses the appropriate financial management expertise as required by the Listing Rules. Mr. Chan has been the Managing Partner of BDO Limited since May 2009. Mr. Chan was the Asia Pacific regional director and the Board member of Horwath International from 1996 to April 2009, during which Mr. Chan was the Managing Director of Horwath Hong Kong CPA Limited. Mr. Chen was elected as a council member of the Hong Kong Institute of Certified Public Accountants ("HKICPA") since 2007 and is actively involved in the work and matters of the technical and industry monitoring committees of HKICPA. Since January 2010, Mr. Chen has been appointed as the chairman of the Financial Reporting Standards Committee of the HKICPA and is responsible for the research, editing and promulgation of the Hong Kong Financial Reporting Standards. Mr. Chen is also the vice-chairman of the Registration and Practicing Committee of the HKICPA. Mr. Chen obtained a bachelor degree in Accounting and a master degree in Commerce from the United Kingdom and Australia, respectively. Mr. Chen has been an independent non-executive Director of the Company since September 2005.

Pao Ping Wing, aged 64, an independent non-executive Director. Mr. Pao was a fellow of the Hong Kong Institute of Directors. Mr. Pao is an independent non-executive director of Oriental Press Group Limited, UDL Holdings Limited, Sing Lee Software (Group) Limited, Maoye International Holdings Limited, Hembly International Holdings Limited, and Soundwill Holdings Limited. Mr. Pao was appointed as a Justice of Peace since 1987. Mr. Pao was appointed by the government of the Hong Kong Special Administrative Region as a member of the Town Planning Board, the Advisory Council on the Environment, the Hong Kong Housing Authority and the Land Development Corporation. Mr. Pao obtained a master degree in Science of Human Settlement Planning and Development. Mr. Pao was appointed as an independent non-executive Director of the Company in September 2005.

Tan Xiao'ao, aged 47, an independent non-executive Director. Mr. Tan was the director of Jiaoyang Law firm from 1996 to 2002 and had been the deputy chairman of the board of directors, director and general manager of Hunan Taizinai Group Bio-tech Company. Mr. Tan is chief counsel of the Hunan Tan Xiao'ao Law firm and has been a part-time professor at the law faculty of the Central South University since 2003. Mr. Tan attended Sun Yat-sen University, Tsinghua University, China University of Political Science and Law and Princeton University and obtained his bachelor of Law, master of Business Administration and master of Law degree. Mr. Tan has been an independent non-executive Director of the Company since June 2006.

Liu Chunru, aged 40, an independent non-executive Director. Ms. Liu is a certified asset valuer. Ms. Liu was the vice president of Beijing China Enterprise Appraisal Co., Ltd. and had been a deputy general manager of Zhongfa International Appraisal Co., Ltd. from 2003 to March 2008. She has been general manager of Zhongfa International Appraisal Co., Ltd. since March 2008. Ms. Liu graduated from Chongqing University with a bachelor degree in Engineering in 1994 and graduated from Tsinghua University with a master degree in Business Administration in 2008. Ms. Liu was a supervisor of the Company from September 2005 to April 2008. Ms. Liu was appointed as an independent non-executive Director of the Company in June 2008.

Supervisors

He Wencheng, aged 53, a supervisor and the Chairman of the Supervisory Committee. Mr. He is a senior accountant. Mr. He joined the Parent Group in September 2009 as the vice general manager and chief financial officer. He held various positions as accountant, deputy manager of the financial asset department, manager of the finance division and the chief accountant of Zhuzhou Electric Locomotive Works (株洲電力機車廠) from December 1977 to March 2007. He served as the chief accountant of Qishuyan Works from March 2007 to January 2008 and the vice general manager and chief financial officer of CSR Qishuyan Locomotive Co., Ltd. from January 2008 to September 2009. Mr. He studied at East China Jiaotong University from August 1983 to July 1985. Mr. He has been a supervisor of the Company since June 2010.

Pang Yiming, aged 47, a supervisor. Mr. Pang is the director of the operation management department of the Company. Mr. Pang joined the Parent Group in October 1982 and has held positions of the assistant to the general manager of the manufacturing centre of CSR ZELRI and the deputy general manager, chief production officer and director of the production department of Time Electronics. Mr. Pang has been the assistant to director and deputy general manager of the marketing management department of marketing center of the Company from January 2007 to January 2009. Mr. Pang was appointed as director of Zhuzhou Times Guangchuang Converter Technology Co., Ltd. from September 2005 to August 2008. Mr. Pang served as the director of the marketing management department of the Company from January to December 2009, and has been the director of the operation management department of the Company since Janurary 2010. Mr. Pang graduated from Central South University in 2004 after a three-year study in management and engineering. Mr. Pang was appointed as an employees' representative supervisor of the Company in September 2005.

Zhou Guifa, aged 47, a supervisor. Mr. Zhou is a professor ranked senior engineer. He joined the Parent Group in 1985 and has held various positions as engineer, senior engineer and senior engineer (professor rank) at the R&D centre of CSR ZELRI and the technology centre of the Company. Mr. Zhou served as the chief technology officer of Shanghai branch of the technology centre of the Company from September 2005 to December 2006, and has been the chief scientist of the Company since January 2007. Mr. Zhou graduated from Dalian Railway Institute with a bachelor degree in Engineering in 1985, obtained a master degree in Engineering from the Central South University in 1997 and a doctor degree in Engineering from the Tongji University in 2009. Mr. Zhou was appointed as an employees' representative supervisor of the Company in January 2010.

Shuai Tianlong, aged 45, an independent supervisor. Mr. Shuai is a practising lawyer in China. From September 1992 to September1995, Mr. Shuai was a lecturer at the School of Political Science and Law of the Hebei Normal University. From July 1995 to July 1999, he served as the consultant at Deputy Director level in the Central Commission for Disciplinary Inspection of the Communist Party of China and the Ministry of Supervision of China. From 1999 to date, he has been working for Jingtian & Gongcheng Law firm in Beijing and is currently one of its partners. Mr. Shuai graduated from the Peking University in July 1987, July 1990 and July 1995 respectively with bachelor of Laws, master of Laws and doctor of Laws degrees. Mr. Shuai was appointed as an independent supervisor of the Company in June 2008.

Wang Kun, aged 35, an independent supervisor. Ms. Wang has been an associate professor at the Department of Accountancy of the School of Economics and Management of the Tsinghua University since December 2010 and a senior researcher of the centre for Corporate Governance of the Tsinghua University since December 2009. Ms. Wang was a lecturer at the Department of Accountancy of Economics and Management of the Tsinghua University from 2003 to September 2010. Ms. Wang graduated from the Department of Accountancy of Nankai University in July 1998 with a bachelor's degree in Management Science. She graduated from the Department of Accountancy of the School of Business and Management of Hong Kong University of Science and Technology in January 2003 with a doctor degree in Accountancy. Ms. Wang was appointed as an independent supervisor of the Company in June 2008.

Senior Management

Li Donglin, aged 44, an executive Director and general manager. Biographical details of Mr Li are set out above.

Liang Yuguo, aged 49, Party secretary and deputy general manager. Mr. Liang joined CSR ZELRI in 1983 and been the deputy director, director and department head of the Testing Center of CSR ZELRI. He served as a deputy director and general secretary of the Party branch of the research and development centre of CSR ZELRI from April 2002 to September 2004. He was the general manager of the new business unit of CSR ZELRI from September 2004 to December 2005, assistant to the general manager of the headquarters business of CSR ZELRI and the general manager of the new business unit of CSR ZELRI from January 2006 to January 2007. Mr. Liang graduated from the Department of Locomotive Electrical drive of the Shanghai Railway Institute with a bachelor degree in Engineering in 1983, and obtained a master degree in Engineering from the Department of Traffic Information Engineering and Control of the Central South University in 2002. He graduated from the Central South University of Economics and Law with major in Business Administration in July 2006. Mr. Liang served as the general manager of the safety equipment business unit of the Company from February to December 2007, and an as assistant to the president of the Company from December 2007 to 2008. He served as the chief administration officer of the Company from January 2009 to December 2009, and has been the Party secretary and deputy general manager of the Company since January 2010.

Jiang Yi, aged 40, chief planning officer. Mr. Jiang joined CSR ZELRI in August 1992 and has held the positions of deputy general manager and general manager of the research and development centre, director of the human resources department, director of the quality and service department, director of the after-sale service department and deputy director of the manufacturing centre of CSR ZELRI. Mr. Jiang graduated from the Northern Jiaotong University (now known as Beijing Jiaotong University) with a bachelor degree in Electric Traction and Drive Control in 1992 and graduated from Hunan University with a master degree in Business Administration in December 2006. Mr. Jiang served as a supervisor of the Company from September 2005 to December 2007. He also served as general manager of the technology centre of the Company from September 2005 to December 2007 and the deputy chief engineer of the Company from January 2007 to December 2007, and served as the chief marketing officer of the Company from December 2007 to December 2009. Mr. Jiang has been the chief planning officer of the Company since January 2010.

Liu Ke'an, aged 40, chief technology officer. Mr. Liu is a senior engineer. He joined CSR ZELRI in August 1994 and held various positions as engineer, chief engineer, senior engineer, chief designer. He graduated from the Department of Electrical Engineering of Tongji University with a bachelor degree in Engineering in 1994. He has been appointed as head of the systems project department, head of the drive technology department, deputy director and director of the technology centre of the Company since September 2005. Mr. Liu is a director of Dynex. Mr. Liu served as an employees' representative supervisor of the Company from December 2007 to January 2010. Mr. Liu has been the chief technology officer of the Company since January 2010.

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

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

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

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

Yan Wu, aged 44, a non-executive Director and secretary of the Board. Biographical details of Mr. Yan are set out above.

Tang Tuong Hock, Gabriel, aged 58, the qualified accountant and joint company secretary. Mr. Tang has been a member of the Institute of Chartered Accountants in England and Wales since 1981 and is also a member of the Chartered Association of Certified Accountants in the United Kingdom. Mr. Tang has more than 20 years of experience in accounting and management in various industries. He was appointed as the qualified accountant and joint company secretary of the Company in July 2006.

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

I Corporate Governance Practices

The Company places great emphasis on the superiority, stability and reasonability of its corporate governance. For the reporting period ended 31 December 2010, the Company has adopted all the relevant provisions contained in the CG Code set out in Appendix 14 of the Listing Rules and has complied with all code provisions of the CG Code.

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

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

II Securities Transactions by Directors

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

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

III Board of Directors

1. Composition of the Board

As at the date of this report, the Board consists of ten Directors, among whom Mr. Ding Rongjun is the Chairman of the Board and an executive Director; Mr. Deng Huijin is the Vice Chairman of the Board and a non-executive Director; Mr. Li Donglin is an executive Director; Messrs. Yan Wu and Ma Yunkun are non-executive Directors; and Messrs. Gao Yucai, Chan Kam Wing, Clement, Pao Ping Wing and Tan Xiao'ao and Ms. Liu Chunru are independent non-executive Directors.

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

Mr. Lu Penghu resigned as a non-executive Director, joint company secretary, the strategy committee member of the Board of the Company and other positions of the Group due to his pursue of new employment on 28 December 2010. Mr. Yan Wu has been appointed as a non-executive Director to fill this vacancy with effect from 28 December 2010.

The Company has entered into service contracts with all Directors for a term of three years except for Mr. Deng Huijin (acting as a non-executive Director whose term commencing from 19 August 2009 until the conclusion of the annual general meeting for the year 2009 (and was re-elected as a non-executive Director for a term ending on the conclusion of the annual general meeting for the year 2010 by the shareholders at the annual general meeting for the year 2009)), Mr. Li Donglin (acting as an executive Director whose term commencing from 17 April 2010 until the conclusion of the annual general meeting for the year 2009 (and was re-elected as an executive Director for a term ending on the conclusion of the annual general meeting for the year 2010 by the shareholders at the annual general meeting for the year 2009)) and Mr. Yan Wu (acting as a non-executive Director whose term commencing from 28 December 2010 until the conclusion of the annual general meeting of 2010). The contracts shall remain valid for a term of three years or for a shorter period as may be decided upon at the re-elections of the Directors at the general meeting. Notice for termination of Directors' service contracts given by any party shall be for a minimum of three months.

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

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

2. Board Meetings and Directors' attendances at Board Meetings

During the reporting period, the Company held five Board meetings.

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

Name	Title	Number of Board meetings that the Director should have attended	Number of Board meetings attended by the Director	Attendance Rate	Remarks
Ding Rongjun	Chairman of the Board and Executive Director	5	5	100%	
Deng Huijin	Vice Chairman of the Board and Non-Executive Director	5	5	100%	
Li Donglin	Executive Director	4	4	100%	Appointed as an executive Director at the seventh meeting of the second session of the Board on 17 April 2010
Yan Wu	Non-Executive Director	1	1	100%	Appointed as a non-executive Director at the second interim meeting of the second session of the Board on 28 December 2010
Ma Yunkun	Non-Executive Director	5	5	100%	
Gao Yucai	Independent Non-Executive Director	5	5	100%	
Chan Kam Wing, Clement	Independent Non-Executive Director	5	5	100%	
Pao Ping Wing	Independent Non-Executive Director	5	5	100%	
Tan Xiao'ao	Independent Non-Executive Director	5	5	100%	
Liu Chunru	Independent Non-Executive Director	5	5	100%	
Song Yali	Vice Chairman and Non-Executive Director	1	1	100%	Resigned as Vice Chairman of the Board and non-executive Director at the seventh meeting of the second session of the Board on 17 April 2010
Lu Penghu	Non-Executive Director	4	4	100%	Redesignated as a non-executive Dirrector at the seventh meeting of the second session of the Board on 17 April 2010. Resigned as a non-executive Director at the second interim meeting of the second session of the Board on 28 December 2010

3. Operation of the Board

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

All Directors are given not less than 14 days' advance notice of regular Board meetings and are given reasonable advance notice of Board meetings other than regular meetings.

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

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

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

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

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

(4) Formulating annual financial budget and final accounts;

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

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

(7) Proposing amendments to the Articles.

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

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

4. Specialized Committees of the Board

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

a Strategy committee

The Company's strategy committee was established in October 2005. It currently consists of three Directors, including two executive Directors and one independent non-executive Director. The members of the strategy committee are Messrs. Ding Rongjun, Li Donglin and Gao Yucai. Mr. Ding Rongjun is the strategy committee's chairman.

The main responsibilities of the strategy committee are:

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

(2) to conduct strategic research concerning the Group;

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

(4) to review major capital expenditure projects.

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

b Audit committee

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

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

The audit committee held four meetings during the reporting period. These meetings mainly discussed issues concerning the Company's annual results, half yearly results, quarterly results, connected transactions, internal audit and internal controls related issues, etc. The following table shows the record of attendance of the audit committee members:

Committee member	Attendance rate for meetings held during the year ended 31 December 2010
Chan Kam Wing, Clement	4/4
Pao Ping Wing	4/4
Gao Yucai	4/4
Tan Xiao'ao	4/4
Liu Chunru	4/4
Ma Yunkun	4/4

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

c Risk management committee

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

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

The risk management committee held one meeting during the reporting period. At such meeting, the committee mainly discussed issues concerning corporate governance report and internal control.

d Nomination and remuneration committee

The Company's remuneration committee was established in October 2005, and changed its name to nomination and remuneration committee at the first meeting of the second session of the Board held on 27 June 2008. It currently consists of three independent non-executive Directors. The committee members are Messrs. Pao Ping Wing, Tan Xiao'ao, and Ms. Liu Chunru. Mr. Pao Ping Wing is the nomination and remuneration committee's chairman. Mr. Ding Rongjun and Mr. Li Donglin resigned as members of the nomination and remuneration committee at the second interim meeting of the second session of the Board held on 28 December 2010.

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

During the reporting period, the Company convened two nomination and remuneration committee meetings. Remuneration of the Directors and the senior management, and the change of Directors were the main issues discussed at such meetings. The following table shows the record of attendance of the nomination and remuneration committee members:

Committee member	Attendance rate for meetings held during the year ended 31 December 2010
Pao Ping Wing	2/2
Ding Rongjun	2/2
Li Donglin	2/2
Tan Xiao'ao	2/2
Liu Chunru	2/2

IV Chairman and General Manager

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

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

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

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

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

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

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

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

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

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

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

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

(6) Proposing the appointment and dismissal of deputy general manager, chief officer and assistant to the general manager of the Company;

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

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

V Non-executive Directors

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

VI Nomination of Directors

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

VII Remuneration of the Auditors

For the year ended 31 December 2010, the Company appointed Ernst & Young to provide annual results auditing and interim results review services to the Company. Ernst & Young also provided quarterly agreed upon procedures service for connected transactions for the Company. Details of the external auditors' remuneration of the Company are as follows:

Service provided:	For the year ended 31 December 2010 (RMB'000)
Annual results auditing service	4,280
Interim results review service	620
Quarterly agreed upon procedures service for connected transactions	520

Note: Annual results auditing service includes auditing service provided to certain companies under the Group in accordance with the accounting standard of the PRC. The above auditing, review and agreed upon procedures services included advance for business taxes, hotel accommodation and transportation fees etc.

VIII Directors' Responsibilities in respect of the Financial Reports

The Directors confirm that they are responsible for the preparation of financial reports, and to give a true and fair view of the Company's and the Group's financial status and operating results for the year ended 31 December 2010.

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

IX Internal Control

The Company has a sound organization system of internal control. The Board is responsible for maintaining a reliable and effective internal control system. Guided by the audit committee and the risk management committee of the Board, the audit and risk control division carry out inspection, supervision and evaluation for internal controls of the Company and its subsidiaries in respect of important control functions such as financial control, operational control, compliance control and risk management, supervise and timely make up internal control deficiencies and control risks.

During the reporting period, the Company has continually improved its internal control system and rectified its internal control deficiencies, whereby forming a comprehensive risk management structure. This mainly include implementing self-examination, evaluation and rectification for internal controls, expanding the auditing scope of contracts and enhancing the risk control over the procurement by the subsidiaries of the Company, thus rendering an internal control regime manual covering 220 internal control systems and 90 business processes; and building an integrated risk events database, and corresponding solutions and contingency plans for significant risks, and meanwhile initiating risk early-warning system both at horizontal and vertical level.

The internal controls have been gradually conducted through the Company, its underlying divisions and subsidiaries. This becomes a voluntary action for the Company from top to bottom. After continuous and sustained efforts, the Company currently has reached a sound, reasonable and effective internal control system, which is under robust and reliable operation. Such system has complied with the code provisions relating to internal control under CG Code, and it can ensure that the Company sustains from any changes in business and external environment in terms of financial, operational and risk management, so as to safeguard the assets of the Company and the interests of our shareholders.

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

CSR ZELRI, the controlling shareholder of the Company, and CSRG, the ultimate controlling shareholder of the Company (hereinafter referred to as "Controlling Shareholders"), have each submitted their "explanations regarding the implementation of the non-competition and indemnity agreement in 2010" to the Company respectively, declaring that they had complied with the terms of the said agreements. The independent non-executive Directors have also reviewed the implementation of the non-competition and indemnity agreements by the Controlling Shareholders in 2010. The independent non-executive Directors consider that the Parent Group and the CSRG Group (excluding the Parent Group) had complied with the terms of the non-competition and indemnity agreements in 2010. The respective businesses of the Parent Group and the CSRG Group (excluding the Parent Group) were independent of the Group's business, employing different technologies, have different customers, which will not result in any competition with the Group. The Directors were able to uphold the interests of the Company and its shareholders, and operated and managed the Company's business independently.

XI Relationship with Investors

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

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

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

Directors' Report

The Board of Directors is pleased to present the Directors' Report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

The Company's business activities

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

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

Results and dividends

Results of the Group for the year ended 31 December 2010, prepared in accordance with International Financial Reporting Standards ("IFRSs"), are set out on page 45 to page 127 of this annual report.

Based on the lower of the Company's net profit calculated under Generally Accepted Accounting Principles ("GAAP") of PRC and IFRSs, the Company has distributable profits (before the proposed final dividend) of RMB1,242.22 million as at 31 December 2010. The Board proposed distribution of a cash dividend of RMB0.305 per share (including applicable tax) for the year.

Pursuant to the provisions of the Corporate Income Tax Law of the People's Republic of China and the Implementing Regulations of the Corporate Income Tax Law of the People's Republic of China, effective from 1 January 2008, any PRC domestic enterprise shall withhold the corporate income tax of 10% upon the distribution of dividends payable to the shareholders being non-resident enterprises (legal persons) for accounting periods starting from 1 January 2008, and the payer shall serve as the withholding agent. The Company will strictly abide by the law and identify all shareholders who are subject to the withholding and payment of corporate income tax, whose names appear in the Company's register of members as holders of H shares on the record date and who are not individuals (including HKSCC Nominees Limited, other corporate nominees or trustees, and other entities or organisations which are all considered as non-resident enterprise shareholders). The Company will distribute the dividends to the relevant shareholders after deducting corporate income tax at the rate of 10%. The proposed dividend to be distributed is subject to the approval of the shareholders at the annual general meeting to be held on 10 June 2011.

The dividends are payable to shareholders whose names appear on the register of members at the close of business on 9 May 2011. The Company's share register will be temporarily closed from 11 May 2011 to 10 June 2011 (both days inclusive), during which period no transfer of shares will be registered.

In respect of the distribution of dividends, dividends for domestic shares will be distributed and paid in Renminbi, while dividends for H shares will be declared in Renminbi and paid in Hong Kong dollars (The Hong Kong dollars equivalent shall be calculated at the average middle exchange rate of Renminbi to Hong Kong dollars announced by the People's Bank of China five working days prior to the declaration of dividend at the 2010 annual general meeting to be held on 10 June 2011).

Use of proceeds from the Company's initial public offering

The Company issued 414,644,000 H shares (including H shares issued via the exercise of the over–allotment option) in the initial public offering in December 2006. The issue price was HK$5.30 per share, the proceeds amounted to approximately HK$2,197,613,000 (equivalent to RMB2,209,968,000). The net proceeds from the initial public offering after deducting share issuing expenses amounted to RMB2,109,852,000. All the proceeds were received by the Company on 28 December 2006. As at 31 December 2010, approximately RMB2,128 million has been applied to the intended uses as set out in the Company's prospectus, details of which are set out below:

(1) Approximately RMB886.59 million for investments in train power converters, auxiliary power supply equipment and control systems;

(2) Approximately RMB176.17 million for investments in train operation safety equipment;

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

(4) Approximately RMB526.39 million for investments in large size power semi-conductor devices;

(5) Approximately RMB99.52 million for investments in sensors and related products; and

(6) Approximately RMB109.99 million for other areas.

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

In addition, the Company has changed the use of unutilised proceeds, with approximately RMB100 million being used to increase the registered capital of Baoji Times, and approximately RMB132 million being used for investments in train power converters, auxiliary power supply equipment and control systems, large size power semi-conductor devices, and additional working capital and other general corporate purposes. For further details, please refer to the announcements of the Company dated 25 October 2010 and 7 December 2010 respectively.

Save for that, as of 31 December 2010, the use of proceeds did not differ from those disclosed in the prospectus of the Company.

As of 31 December 2010, the Company has used up all the proceeds from initial public offering (approximately RMB2,128 million), which has an excess of approximately RMB19 million more than the aforementioned proceeds (approximately RMB2,109 million), mainly due to the foreign exchange losses incurred when the proceeds was transferred via Standard Chartered Bank to a domestic account. The above foreign exchange losses have been accounted in the various uses of proceeds during our project management review.

Financial Highlights

Property, plant and equipment

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

Borrowings

Details of the Group's borrowings as at 31 December 2010 are set out in note 30 to the financial statements.

Share Capital

There were no movements in the share capital of the Company during the reporting period. Please refer to note 34 to the financial statements for details.

Stock Options of Dynex

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

The maximum number of common shares of Dynex which may be issued under the Plan (the "Option Shares") (subject to adjustment as provided therein) shall not exceed 2,657,316 shares, representing 3.30% of the issued share capital of Dynex as at 31 December 2010. The aggregate number of Option Shares which may be issued to insiders (as defined in the Plan) of Dynex shall not exceed 10% of the number of issued common shares of Dynex immediately prior to any issuance of options under the Plan or any issuance of Option Shares, as the case may be, excluding Option Shares issued pursuant to the Plan during the preceding one year period (the "Outstanding Issue"). The aggregate number of Option Shares which may be issued to insiders of Dynex within any one year period shall not exceed 10% of the Outstanding Issue. The number of Option Shares which may be issued to any one Participant and its associates (as defined in the Plan) within any one year period shall not exceed 5% of the Outstanding Issue. The number of Option Shares which may be issued to any one Participant shall not exceed 5% of the Outstanding Issue.

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

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

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

During the reporting period, except for the exercise of 117,619 options at an exercise price of Cdn$0.08, no option was granted, exercised, cancelled or lapsed under the Plan. The following table shows the outstanding options held by the Participants under the Plan:

Category of participants	Grant date	Expiry date	Exercise Price per Option Share	Number of options outstanding as at 31 December 2010
Directors of Dynex	10 December 2007 14 February 2008	9 December 2012 13 February 2013	Cdn$0.30 Cdn$0.30	100,000 50,000
Total				150,000

Notes:

1. All outstanding options are fully vested.

2. The outstanding options have a weighted average remaining life of 2 years and a weighted average exercise price of Cdn$0.30.

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

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

Directors' Share Plan of Dynex

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

Pre-emptive rights

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

Purchase, redemption or sale of listed securities of the Company

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

Reserves

Details of the changes in the reserves of the Company and the Group during the year are set out in note 35 to the financial statements and the consolidated statement of changes in equity respectively.

Distributable reserves

As at 31 December 2010, calculated in accordance with relevant regulations, the Company's distributable reserves amounted to approximately RMB1,242.22 million, of which approximately RMB330.70 million has been proposed to be paid as final dividend for the year.

Major customers and suppliers

The percentage of sales attributable to the Group's five largest customers during the year was approximately 72.60% of the Group's total sales.

CSR Zhuzhou is the largest customer of the Group, and the percentage of the Group's sales to CSR Zhuzhou during the year was approximately 31.79% of the Group's total sales. CSR Zhuzhou is owned as to 100% by CSR.

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

CSR Qishuyan Locomotive Co., Ltd is one of the Group's five largest customers. It is owned as to 100% by CSR.

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

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

During the year, purchases from the Group's five largest suppliers in aggregate represent less than 30% of the total purchases of the Group during the year.

Directors and Supervisors

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

Executive Directors

Ding Rongjun - Chairman of the Board

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

Lu Penghu (redesignated from an executive Director to a non-executive Director on 17 April 2010)

Non-executive Directors

Deng Huijin – Vice Chairman of the Board (appointed as Vice Chairman of the Board on 17 April 2010)

Yan Wu (appointed as a non-executive Director on 28 December 2010)

Ma Yunkun

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

Lu Penghu (resigned as a non-executive Director on 28 December 2010)

Independent non-executive Directors

Gao Yucai

Chan Kam Wing, Clement

Pao Ping Wing

Tan Xiao'ao

Liu Chunru

Supervisors

He Wencheng – Chairman of the Supervisory Committee (appointed as a supervisor and Chairman of the Supervisory Committee on 18 June 2010)

Pang Yiming

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

Shuai Tianlong - independent supervisor

Wang Kun - independent supervisor

Zhang Liqiang (resigned as a supervisor and the Chairman of the Supervisory Committee on 18 June 2010)

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

Biographies of Directors and supervisors of the Company

Details of the biographies of the Directors and supervisors of the Company are set out on page 11 to page 14 of this annual report.

Service contracts with Directors and supervisors

The Company has entered into service contracts with all Directors and supervisors. Except for Mr. Deng Huijin (acting as a non-executive Director whose term commencing from 19 August 2009 until the conclusion of the annual general meeting for the year 2009 (and was re-elected as a non-executive Director for a term ending on the conclusion of the annual general meeting for the year 2010 by the shareholders at the annual general meeting for the year 2009)), Mr. Li Donglin (acting as an executive Director whose term commencing from 17 April 2010 until the conclusion of the annual general meeting for the year 2009 (and was re-elected as an executive Director for a term ending on the conclusion of the annual general meeting for the year 2010 by the shareholders at the annual general meeting for the year 2009)), Mr. Yan Wu (acting as a non-executive Director whose term commencing from 28 December 2010 until the conclusion of the annual general meeting of 2010) and Mr. He Wencheng (acting as a supervisor whose term commencing from 18 June 2010 until the conclusion of the annual general meeting for the year 2010), other service contracts are for an initial term of three years which shall continue for term of three years or for a shorter period as may be decided upon at the respective re-elections of the Directors and supervisors at the general meeting or the employees' representative committee meeting of the Company (as the case may be). Notice for termination of service contracts given by any party shall be for a minimum of three months.

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

Directors' and supervisors' interests in contracts

During the year and as at 31 December 2010, none of the Directors nor supervisors had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding Company or any of its subsidiaries was a party.

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

Apart from the stock option plan and the directors' share plan of Dynex set out above, as at 31 December 2010, none of the Directors, supervisors, the general manager of the Company or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), required to be notified to the Company and the Stock Exchange pursuant to Part XV of the SFO, or any interests or short positions in the shares required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or any personal, family, corporate or other interests or short positions required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors.

Directors' and supervisors' rights to acquire shares or debentures

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

Employees and remuneration Policy

The Group's remuneration policy for its employees takes into account the individuals' work performance, qualifications and competence. The Group offers salary increments and bonuses to employees with outstanding performance. The bonus scheme is discretionary and is determined by the Directors with reference to the performance of the staff and the Group's operation results. The Group places great emphasis on the provision of on-the-job-training and development of its employees. Each staff member is required to participate in departmental training prior to the commencement of his or her employment. The Company releases annual training plan each year pursuant to which all departments need to organize staff training according to their work requirement. The management and other employees are required to undertake training for enhancing work ability as specified by the Group. The Company has established channels for career development of employees. Employees have opportunities of promotion and development according to the orders of different positions within the Company. As at 31 December 2010, the Group has 4,344 full time employees (excluding those of Dynex), and the total amount of remuneration (including salaries and allowances) for employees in 2010 was approximately RMB416.32 million (excluding those of Dynex).

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

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

Structure of share capital

The Company's share capital structure as at 31 December 2010 was as follows:

		As at 31 December 2010	
Shareholder	Type	Number of shares	Approximate % of issued share capital
CSR ZELRI	Domestic share	589,585,699	54.38%
Qishuyan Works	Domestic share	9,380,769	0.87%
CSR Investment & Leasing	Domestic share	9,380,769	0.87%
CSR Zhuzhou	Domestic share	10,000,000	0.92%
Kunming China Railway	Domestic share	9,800,000	0.90%
Shares in public circulation	H share	456,108,400	42.06%
Total		1,084,255,637	100%

Substantial shareholders

Interests and short positions in the shares and relevant underlying shares of the Company or any of its associated corporations pursuant to the disclosure requirements in Divisions 2 and 3 of Part XV of the SFO as at 31 December 2010 were as follows:

Name of substantial shareholder	Number of shares held	Capacity	Approximate % of Domestic Share share capital	Approximate % of H Share share capital	Approximate % of issued share capital
CSR ZELRI	589,585,699 (Long position)	Beneficial owner	93.86%	—	54.38%
CSR (note 1)	608,966,468 (Long position)	Interest in controlled entity	96.95%	—	56.16%
CSRG (note 2)	618,347,237 (Long position)	Interest in controlled entity	98.44%	—	57.03%
JPMorgan Chase & Co.	692,000 (Long position)	Beneficial owner	—	0.15%	0.06%
	2,804,000 (Long position)	Investment manager	—	0.61%	0.26%
	32,765,977 (Lending pool shares)	Custodian/ Approved lending agent	—	7.18%	3.02%
FIL Limited	32,972,296 (Long position)	Investment manager	—	7.23%	3.04%
Allianz SE	27,207,700 (Long position)	Interest in controlled entity	—	5.97%	2.51%
Fortis Investment Management SA	23,544,000 (Long position)	Investment manager	—	5.16%	2.17%

Note:

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

(2) CSRG is directly and indirectly interested in 55.07% of the issued shares of CSR, and is directly interested in 100% in the registered capital of Qishuyan Works. Accordingly, CSRG is deemed under the SFO to be interested in the shares held by each of CSR and Qishuyan Works.

Continuing Connected Transactions

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

Non-exempt continuing connected transactions

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

(a) Mutual supply of products with the CSRG Group

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

On 28 April 2008, the Company signed a renewed mutual supply agreement (the "CSRG Renewed Agreement") with CSRG, confirming the annual caps for continuing connected transactions between the Group and the CSRG Group (including the Parent Group) during each of the five financial years ending 31 December 2013. The CSRG Renewed Agreement and the revised annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting held on 27 June 2008.

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

For the year ended 31 December 2010, the amount payable by the Group to the CSRG Group for the products and services supplied by the CSR Group under the CSRG Renewed Agreement (as supplemented by the CSRG First Supplemental Agreement) amounted to RMB520 million, and the amount payable by the CSRG Group to the Group for the products and services supplied by the Group under the CSRG Renewed Agreement (as supplemented by the CSRG First Supplemental Agreement) amounted to RMB3,716 million, which are within the annual caps of continuing connected transactions for the year ended 31 December 2010 approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

In view of the projected growth in the relevant transactions, on 25 March 2011, the Company further entered into a supplemental agreement to the CSRG Renewed Agreement (as supplemented by the CSRG First Supplemental Agreement) (the "CSRG Second Supplemental Agreement") with CSRG to, among others, revise the annual caps of continuing connected transactions for the three financial years from 1 January 2011 to 31 December 2013. The CSRG Second Supplemental Agreement and the revised annual caps are conditional upon, among others, the approval of the independent shareholders of the Company.

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

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

On 28 April 2008, the Company entered into a renewed mutual supply agreement (the "KCR Renewed Agreement") with Kunming China Railway, confirming the annual caps in respect of the continuing connected transactions between the Group and Kunming China Railway Group during each of the five financial years ending 31 December 2013. The KCR Renewed Agreement was approved by the independent shareholders of the Company at the extraordinary general meeting held on 27 June 2008.

On 7 August 2008, the Company and Kunming China Railway entered into a supplemental agreement to the KCR Renewed Agreeemnt (the "KCR First Supplemental Agreement") to revise the annual caps of the continuing connected transactions during each of the three financial years ended 31 December 2010. Pursuant to the KCR First Supplemental Agreement, except for the revised annual caps, all other terms of the KCR Agreement and the KCR Renewed Agreement remain unchanged. The KCR First Supplemental Agreement and the revised annual caps were approved by the independent shareholders of the Company at the extraordinary general meeting held on 13 October 2008.

On 14 April 2009, the Company entered into a supplemental agreement to the KCR Renewed Agreement (as supplemented by the KCR First Supplemental Agreement) (the "KCR Second Supplemental Agreement") with Kunming China Railway to revise the annual caps of continuing connected transactions for each of the five financial years ending 31 December 2013. Save for the revised annual caps, according to the KCR Second Supplemental Agreement, the terms of the KCR Renewed Agreement (as supplemented by the KCR First Supplemental Agreement) would remain unchanged. The KCR Second Supplemental Agreement and the revised annual caps of continuing connected transactions for each of the five financial years ending 31 December 2013 were approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

From 1 January 2010 to 2 June 2010, the amount payable by the Group to Kunming China Railway Group for the products supplied by Kunming China Railway Group amounted to RMB23 million, and the amount payable by Kunming China Railway Group to the Group for the products supplied by the Group amounted to RMB161 million. Both are within the annual caps approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

Kunming China Railway was a connected person of the Company under the Listing Rules solely because it is a promoter of the Company. Pursuant to the amendments to the Listing Rules relating to the connected transactions effective from 3 June 2010, Kunming China Railway ceased to be a connected person of the Company and therefore the transactions under the KCR Renewed Agreement (as supplemented by the KCR First Supplemental Agreement and the KCR Second Supplemental Agreement) would not constituted as connected transactions of the Company under the Listing Rules.

(c) Mutual supply of products with China Railway Group

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

For the year ended 31 December 2010, the amount payable by the Group to China Railway Group for the products supplied by China Railway Group amounted to RMB3 million, and the amount payable by China Railway Group to the Group for the products supplied by the Group amounted to RMB25 million. Both are within the annual caps approved by independent shareholders of the Company at the extraordinary general meeting held on 23 June 2009.

On the basis that (i) the continuing connected transactions under the CR Agreement are in the ordinary and usual course of business of the Group, on normal commercial terms and are revenue in nature and (ii) China Railway is a connected person of the Company solely because its wholly-owned subsidiary, China Railway Bus, is a substantial shareholder of Baoji Times which satisfies the requirements under Rule 14A.31(9) of the Listing Rules, the Company will apply with effect from 1 January 2011 the exemption under Rule 14A.33(4) of the Listing Rules to the said transactions. By virtue of Rule 14A.33(4) of the Listing Rules, the continuing connected transactions under the CR Agreement will be exempt from all reporting, annual review, announcement and independent shareholders' approval under Chapter 14A of the Listing Rules, so long as the said transactions can satisfy the applicable requirements of Rule 14A.31(9) of the Listing Rules.

Annual Review of Continuing Connected Transactions

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

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

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

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

(4) did not exceed the total annual caps for 2010 approved at the extraordinary general meeting held by the Company on 23 June 2009.

Mechanism for protecting non-controlling interests

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

(i) Interested directors have to declare their respective interests, and waive their rights to attend Board meetings and abstain from voting in respect of the connected transactions they are interested in. Accordingly, Messrs. Ding Rongjun and Song Yali (resigned as the Vice Chairman and a non-executive Director on 17 April 2010) and Mr. Deng Huijin and Mr. Lu Penghu (resigned as a non-executive Director on 28 December 2010) waived their rights to attend the Board meetings and abstained from voting in respect of the connected transactions between the Company and the CSRG Group. Mr. Ma Yunkun waived his rights to attend the Board meeting and abstained from voting in respect of connected transaction between the Company and Kunming China Railway.

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

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

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

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

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

Non-competition and indemnity agreements

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

The independent non-executive Directors have reviewed the compliance issue of the non-competition and indemnity agreements with the Parent Group and the CSRG Group (excluding the Parent Group) for the year ended 2010, and reviewed relevant information provided by the Parent Group and the CSRG Group (excluding the Parent Group). The independent non-executive Directors were of the opinion that the Parent Group and the CSRG Group (excluding the Parent Group) complied with the relevant terms of the non-competition and indemnity agreements in 2010. The Parent Group and the CSRG Group (excluding the Parent Group) carried on their respective businesses independent of the Company's businesses, having different technology applications and different customers, which did not cause any competition with the Company. The Board of Directors operated and managed the Company's businesses independently in the interests of the Company and its shareholders as a whole.

Sufficiency of public float

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

Post Balance Sheet Events

The Group has no post balance sheet event.

Taxation

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

Save as disclosed above, for the year ended 31 December 2010, no foreign shareholder who is non-PRC resident is liable to individual or corporate income tax, capital gains tax, stamp duty or estate duty of the PRC in relation to their holding of H shares of the Company. Shareholders are urged to consult their tax advisers regarding the applicable PRC and Hong Kong tax laws and other tax consequences of owning and disposing of H shares of the Company.

Auditors

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

By order of the Board

Ding Rongjun
Chairman of the Board

Changsha, Hunan, PRC
25 March 2011

Supervisory Committee's Report

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

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

1. During the year, the Company held two Supervisory Committee meetings. The notices, convening and holding of and passing resolutions at the meetings were in compliance with the requirements of the relevant laws and regulations and the Articles. Areas of review mainly included the 2009 work report of the Supervisory Committee, the 2009 financial report, the 2009 annual report, the 2010 interim report and connected transactions.

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

II. Independent opinion of the Supervisory Committee

1. The Company carried on its operations lawfully

In 2010, in accordance with applicable laws and regulations, the Supervisory Committee reviewed the procedures adopted in the convening of meetings, passing resolutions, decision-making procedures, results of voting of the Company's shareholders' meetings and the Board meetings, implementation of resolutions of shareholders' meeting by Directors, the performance of duties of senior management and the management system of the Company. The Supervisory Committee believes that the Directors and senior management of the Company had performed their responsibilities in compliance with the applicable laws and regulations. During the reporting period, there were no breaches of laws or regulations to the detriment of the Company or the interests of shareholders in any material aspect.

2. Financial reports give a true and accurate view

The Supervisory Committee seriously reviewed the Group's financial system and financial situations in detail. The Supervisory Committee considers the Group's 2010 financial reports to be true and accurate and present the financial situations and operating results objectively, and that the audit opinion and other relevant comments made by Ernst & Young are also true and fair.

3. Use of proceeds

To facilitate the promotion of high power locomotive project and to form scaled sales, the Company relocated part of the net proceeds from the global offering of shares of the Company initially designated to be used as working capital to finance the acquisition of the 12% and 1% equity interests in Zhuzhou Siemens held by CSR Zhuzhou and Siemens Ltd., China respectively. Please refer to the announcement of the Company dated 16 September 2008 for details.

In order to boost the development of large-scale railway maintenance vehicle industry, the Company relocated part of the net proceeds of approximately RMB60 million from the global offering initially designed to be used as working capital to finance the establishment of a joint venture Baoji Times. Please refer to the announcement of the Company dated 25 March 2009 for details.

In addition, the Company has changed the use of unutilised proceeds, with approximately RMB100 million being used to increase the registered capital of Baoji Times , and approximately RMB132 million being used for investments in train power converters, auxiliary power supply equipment and control systems, large size power semi-conductor devices, and additional working capital and other general corporate purposes. For further details, please refer to the announcements of the Company dated 25 October 2010 and 7 December 2010 respectively.

Save as disclosed above, as at 31 December 2010, there were no deviations in the use of proceeds from that disclosed in the Company's prospectus.

4. Connected transactions

The Supervisory Committee considers that connected transactions between the Group and each of the CSRG Group, the Kunming China Railway Group and the China Railway Group during the year were entered into in the ordinary and usual course of business. The various transactions were on the principles of openness, fairness and reasonableness and were entered into in the interests of the Group and the shareholders as a whole. After its review, the Supervisory Committee considers that the Group's transactions in 2010 were in compliance with the relevant laws and regulations of the PRC and is not aware of any harm done to the Company's and shareholders' interest by means of connected transactions, and the total value of connected transactions was within the respective annual caps approved by the independent shareholders at the extraordinary general meeting held on 23 June 2009.

5. The implementation of non-competition agreements

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

6. The implementation of resolutions of the annual general meeting

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

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

25 March 2011

Independent Auditors' Report

ERNST & YOUNG
安永

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

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

We have audited the consolidated financial statements of Zhuzhou CSR Times Electric Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 47 to 127, which comprise the consolidated and company statements of financial position as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Ernst & Young
Certified Public Accountants
Hong Kong
25 March 2011

Consolidated Statement of Comprehensive Income

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
REVENUE	5	**5,831,278**	3,325,593
Cost of sales		**(3,679,193)**	(2,118,287)
Gross profit		**2,152,085**	1,207,306
Other income and gains	5	**96,276**	88,678
Selling and distribution costs		**(345,717)**	(203,353)
Administrative expenses		**(755,580)**	(463,594)
Other expenses		**(200,871)**	(12,469)
PROFIT FROM OPERATIONS		**946,193**	616,568
Finance costs	7	**(11,464)**	(8,013)
Share of profits and losses of:			
A jointly-controlled entity		**31,100**	15,767
Associates		**26,204**	(97)
PROFIT BEFORE TAX	6	**992,033**	624,225
Income tax expense	10	**(138,357)**	(89,836)
PROFIT FOR THE YEAR		**853,676**	534,389
OTHER COMPREHENSIVE INCOME			
Exchange differences on translation of foreign operations		**(18,188)**	10,648
Income tax effect		**—**	—
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(18,188)**	10,648
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**835,488**	545,037
Profit attributable to:			
Owners of the parent	11	**852,143**	530,881
Non-controlling interests		**1,533**	3,508
		853,676	534,389
Total comprehensive income attributable to:			
Owners of the parent	11	**837,619**	539,579
Non-controlling interests		**(2,131)**	5,458
		835,488	545,037
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
– Basic and diluted		**RMB0.79**	RMB0.49

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

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**1,377,759**	1,312,741
Prepaid land lease payments	15	**100,047**	102,490
Goodwill	16	**49,209**	52,874
Other intangible assets	17	**59,115**	94,670
Investment in a jointly-controlled entity	19	**122,692**	97,091
Investments in associates	20	**45,012**	19,793
Available-for-sale investments	21	**400**	400
Deferred tax assets	33	**43,678**	20,828
Other non-current assets	25	**43,427**	—
Total non-current assets		**1,841,339**	1,700,887
CURRENT ASSETS			
Inventories	22	**1,590,491**	888,925
Trade receivables	23	**901,236**	742,255
Bills receivable	24	**791,449**	691,190
Prepayments, deposits and other receivables	25	**206,375**	210,081
Pledged deposits	26	**111,980**	28,811
Cash and cash equivalents	26	**1,569,479**	1,138,562
Total current assets		**5,171,010**	3,699,824
CURRENT LIABILITIES			
Trade payables	27	**1,012,637**	718,381
Bills payable	28	**196,087**	162,780
Other payables and accruals	29	**392,017**	322,278
Interest-bearing bank and other borrowings	30	**500,739**	120,800
Tax payable		**132,823**	48,304
Government grants	31	**50,585**	4,656
Provision for warranties	32	**83,370**	93,360
Total current liabilities		**2,368,258**	1,470,559
NET CURRENT ASSETS		**2,802,752**	2,229,265
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,644,091**	3,930,152

Consolidated Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	30	**2,333**	3,330
Government grants	31	**34,970**	37,242
Provision for warranties	32	**91,150**	—
Deferred tax liabilities	33	**12,899**	10,961
Total non-current liabilities		**141,352**	51,533
NET ASSETS		**4,502,739**	3,878,619
EQUITY			
Equity attributable to owners of the parent			
Issued capital	34	**1,084,256**	1,084,256
Reserves	35(a)	**2,990,969**	2,484,757
Proposed final dividend	12	**330,698**	211,430
		4,405,923	3,780,443
Non-controlling interests		**96,816**	98,176
TOTAL EQUITY		**4,502,739**	3,878,619

Ding Rongjun
Director

Li Donglin
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

		Attributable to owners of the parent								
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Statutory reserve RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2009		1,084,256	1,496,162	87,692	(13,904)	586,855	168,060	3,409,121	18,548	3,427,669
Profit for the year		—	—	—	—	530,881	—	530,881	3,508	534,389
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations		—	—	—	8,698	—	—	8,698	1,950	10,648
Total comprehensive income for the year		—	—	—	8,698	530,881	—	539,579	5,458	545,037
Capital contribution from non-controlling shareholders		—	—	—	—	—	—	—	75,646	75,646
Disposal of a subsidiary	36	—	—	—	—	—	—	—	(1,476)	(1,476)
Final 2008 dividend declared		—	—	—	—	(197)	(168,060)	(168,257)	—	(168,257)
Transfer from retained profits		—	—	52,115	—	(52,115)	—	—	—	—
Proposed final 2009 dividend	12	—	—	—	—	(211,430)	211,430	—	—	—
At 31 December 2009		1,084,256	1,496,162	139,807	(5,206)	853,994	211,430	3,780,443	98,176	3,878,619

Consolidated Statement of Changes in Equity

Year ended 31 December 2010

	Notes	Attributable to owners of the parent								
		Issued capital	Capital reserve	Statutory reserve	Exchange fluctuation reserve	Retained profits	Proposed final dividend	Total	Non-controlling interests	Total equity
	Notes	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2010		1,084,256	1,496,162	139,807	(5,206)	853,994	211,430	3,780,443	98,176	3,878,619
Profit for the year		–	–	–	–	852,143	–	852,143	1,533	853,676
Other comprehensive income for the year:										
Exchange differences on translation of foreign operations		–	–	–	(14,524)	–	–	(14,524)	(3,664)	(18,188)
Total comprehensive income for the year		–	–	–	(14,524)	852,143	–	837,619	(2,131)	835,488
Capital contribution from non-controlling shareholders		–	–	–	–	–	–	–	62	62
Excess over the cost of acquisition of additional interest in a subsidiary over the acquirer's additional interest in the net carrying value of an acquirer's identifiable net assets		–	(709)	–	–	–	–	(709)	709	–
Final 2009 dividend declared		–	–	–	–	–	(211,430)	(211,430)	–	(211,430)
Transfer from retained profits		–	–	87,254	–	(87,254)	–	–	–	–
Proposed final 2010 dividend	12	–	–	–	–	(330,698)	330,698	–	–	–
At 31 December 2010		1,084,256	1,495,453*	227,061*	(19,730)*	1,288,185*	330,698	4,405,923	96,816	4,502,739

* These reserve accounts comprise the consolidated reserves of RMB2,990,969,000 (2009: RMB2,484,757,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**992,033**	624,225
Adjustments for:			
Finance costs	7	**11,464**	8,013
Share of profits and losses of:			
Associates		**(26,204)**	97
A jointly-controlled entity		**(31,100)**	(15,767)
Interest income	5	**(7,992)**	(15,770)
Investment income from financial instruments	5	**(580)**	(3,090)
Loss on disposal of items of property, plant and equipment	6	**14,263**	1,509
Loss on disposal of other intangible assets	6	**17,239**	—
Gain on disposal of an associate	5	**(43)**	—
Depreciation	6	**111,733**	76,578
Amortisation of prepaid land lease payments	6	**2,443**	1,753
Amortisation of other intangible assets	6	**23,952**	10,772
Impairment of items of property, plant and equipment	6	**25,796**	213
Impairment of intangible assets	6	**131,628**	—
Impairment of trade and other receivables	6	**1,500**	5,873
Provision/(reversal of provision) against obsolete inventories	6	**(8,977)**	23,511
		1,257,155	717,917
Increase in trade receivables, bills receivable, prepayments, deposits and other receivables		**(288,062)**	(437,619)
Increase in inventories		**(689,448)**	(397,129)
Increase in trade payables, bills payable, other payables and accruals		**505,773**	615,412
Change in government grants		**43,657**	7,982
Increase in provision for warranties		**81,160**	41,787
Cash generated from operations		**910,235**	548,350
Interest received		**2,699**	—
Income tax paid		**(158,592)**	(95,949)
Net cash flows from operating activities		**754,342**	452,401

Consolidated Statement of Cash Flows

Year ended 31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**5,293**	15,770
Investment income from financial instruments		**580**	3,090
Dividends received from a jointly-controlled entity		**5,500**	—
Purchases of items of property, plant and equipment	14	**(229,948)**	(435,957)
Proceeds from disposal of items of property, plant and equipment		**4,476**	2,628
Additions to prepaid land lease payments		**—**	(17,023)
Additions to other intangible assets	17	**(139,417)**	(15,318)
Disposal of a subsidiary	36	**—**	(1,130)
Disposal of an associate		**1,027**	—
Increase in non-current assets		**(43,427)**	—
Decrease in loan receivables		**—**	300,000
Decrease in financial assets at fair value through profit or loss		**—**	100,000
Decrease/(increase) in non-pledged time deposits with original maturity of three months or more when acquired	26	**90,128**	(30,128)
Increase in pledged time deposits	26	**(83,169)**	(25,449)
Net cash flows used in investing activities		**(388,957)**	(103,517)
CASH FLOWS FROM FINANCING ACTIVITIES			
Capital contribution from non-controlling shareholders		**62**	43,695
New bank and other borrowings		**33,343**	120,650
Repayment of bank and other borrowings		**(154,851)**	(25,247)
Proceeds from issuance of bonds		**500,000**	—
Interest paid		**(11,464)**	(8,013)
Dividends paid		**(211,430)**	(168,257)
Net cash flows from/(used in) financing activities		**155,660**	(37,172)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**521,045**	311,712
Cash and cash equivalents at beginning of year		**1,048,434**	736,722
Effect of foreign exchange rate changes, net		**—**	—
CASH AND CASH EQUIVALENTS AT END OF YEAR	26	**1,569,479**	1,048,434

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**996,414**	990,137
Prepaid land lease payments	15	**48,889**	49,931
Other intangible assets	17	**36,938**	65,136
Investments in subsidiaries	18	**591,681**	473,681
Investment in a jointly-controlled entity	19	**63,515**	63,515
Investment in an associate	20	**19,180**	19,180
Deferred tax assets	33	**40,105**	16,564
Other non-current assets	25	**33,427**	—
Total non-current assets		**1,830,149**	1,678,144
CURRENT ASSETS			
Inventories	22	**1,408,830**	747,141
Trade receivables	23	**676,218**	534,041
Bills receivable	24	**713,685**	614,035
Prepayments, deposits and other receivables	25	**344,828**	329,286
Pledged deposits	26	**83,003**	21,790
Cash and cash equivalents	26	**1,244,201**	770,735
Total current assets		**4,470,765**	3,017,028
CURRENT LIABILITIES			
Trade payables	27	**926,208**	648,932
Bills payable	28	**161,550**	142,016
Other payables and accruals	29	**293,256**	305,410
Interest-bearing bank and other borrowings	30	**500,000**	14,381
Tax payable		**137,402**	40,743
Government grants	31	**50,378**	4,656
Provision for warranties	32	**80,173**	81,368
Total current liabilities		**2,148,967**	1,237,506
NET CURRENT ASSETS		**2,321,798**	1,779,522
TOTAL ASSETS LESS CURRENT LIABILITIES		**4,151,947**	3,457,666

Statement of Financial Position

31 December 2010

	Notes	2010 RMB'000	2009 RMB'000
NON-CURRENT LIABILITIES			
Government grants	31	**24,142**	27,000
Provision for warranties	32	**87,922**	—
Total non-current liabilities		**112,064**	27,000
NET ASSETS		**4,039,883**	3,430,666
EQUITY			
Issued capital	34	**1,084,256**	1,084,256
Reserves	35(b)	**2,624,929**	2,134,980
Proposed final dividend	12	**330,698**	211,430
TOTAL EQUITY		**4,039,883**	3,430,666

Ding Rongjun
Director

Li Donglin
Director

1. CORPORATE INFORMATION

Zhuzhou CSR Times Electric Co., Ltd. (the "Company") was established in the People's Republic of China (the "PRC") on 26 September 2005 as a joint stock company with limited liability under the Company Law of the PRC.

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

The Company and its subsidiaries (together, the "Group") are principally engaged in the sale and manufacture of train-borne electrical systems and electrical components.

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which comprise standards and interpretations approved by the International Accounting Standards Board (the " IASB"), and International Accounting Standards ("IAS") and Standing Interpretations Committee interpretations ("IFRICs") approved by the International Accounting Standards Committee that remain in effect, and the disclosure requirements of the Hong Kong Companies Ordinance (the "Companies Ordinance"). They have been prepared under the historical cost convention, except for certain financial assets as further explained in note 2.4 to the financial statements. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

Basis of consolidation from 1 January 2010

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2010. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated on consolidation in full.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate.

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

Basis of consolidation prior to 1 January 2010

Certain of the above-mentioned requirements have been applied on a prospective basis. The following differences, however, are carried forward in certain instances from the previous basis of consolidation:

- Acquisitions of non-controlling interests (formerly known as minority interests), prior to 1 January 2010, were accounted for using the parent entity extension method, whereby the differences between the consideration and the book value of the share of the net assets acquired were recognised in goodwill.

- Losses incurred by the Group were attributed to the non-controlling interest until the balance was reduced to nil. Any further excess losses were attributable to the parent, unless the non-controlling interest had a binding obligation to cover these. Losses prior to 1 January 2010 were not reallocated between non-controlling interest and the parent shareholders.

- Upon loss of control, the Group accounted for the investment retained at its proportionate share of net asset value at the date control was lost. The carrying amount of such investment at 1 January 2010 has not been restated.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES

The Group has adopted the following new and revised IFRSs for the first time for the current year's financial statements.

IFRS 1 (Revised)	*First-time Adoption of International Financial Reporting Standards*
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Additional Exemptions for First-time Adopters*
IFRS 2 Amendments	Amendments to IFRS 2 *Share-based Payment – Group Cash-settled Share-based Payment Transactions*
IFRS 3 (Revised)	*Business Combinations*
IAS 27 (Revised)	*Consolidated and Separate Financial Statements*
IAS 39 Amendment	Amendment to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*
IFRIC-Int 17	*Distributions of Non-cash Assets to Owners*
IFRS 5 Amendments included in *Improvements to IFRSs* issued in May 2008	Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations – Plan to sell the controlling interest in a subsidiary*
Improvements to IFRSs 2009	Amendments to a number of IFRSs issued in April 2009

Other than as further explained below regarding the impact of IFRS 3 (Revised), IAS 27 (Revised), amendments to IAS 7 and IAS 17 included in *Improvements to IFRSs 2009*, the adoption of the new and revised IFRSs has had no significant financial effect on these financial statements.

2.2 CHANGES IN ACCOUNTING POLICY AND DISCLOSURES (continued)

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

(a) IFRS 3 (Revised) *Business Combinations* and IAS 27 (Revised) *Consolidated and Separate Financial Statements*

IFRS 3 (Revised) introduces a number of changes in the accounting for business combinations that affect the initial measurement of non-controlling interests, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognised, the reported results in the period that an acquisition occurs, and future reported results.

IAS 27 (Revised) requires that a change in the ownership interest of a subsidiary without loss of control is accounted for as an equity transaction. Therefore, such a change will have no impact on goodwill, nor will it give rise to a gain or loss. Furthermore, the revised standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. Consequential amendments were made to various standards, including, but not limited to IAS 7 *Statement of Cash Flows*, IAS 12 *Income Taxes*, IAS 21 *The Effects of Changes in Foreign Exchange Rates*, IAS 28 *Investments in Associates* and IAS 31 *Interests in Joint Ventures*.

The changes introduced by these revised standards are applied prospectively and affect the accounting of acquisitions, loss of control and transactions with non-controlling interests after 1 January 2010.

(b) *Improvements to IFRSs 2009* issued in April 2009 sets out amendments to a number of IFRSs. There are separate transitional provisions for each standard. While the adoption of some of the amendments results in changes in accounting policies, none of these amendments has had a significant financial impact on the Group. Details of the key amendments most applicable to the Group are as follows:

- IAS 7 *Statement of Cash Flows*: Requires that only expenditures that result in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities.

- IAS 17 *Leases*: Removes the specific guidance on classifying land as a lease. As a result, leases of land should be classified as either operating or finance leases in accordance with the general guidance in IAS 17.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

IFRS 1 Amendment	Amendment to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters* [2]
IFRS 1 Amendments	Amendments to IFRS 1 *First-time Adoption of International Financial Reporting Standards – Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters* [4]
IFRS 7 Amendments	Amendments to IFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets* [4]
IFRS 9	*Financial Instruments* [6]
IAS 12 Amendments	Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets* [5]
IAS 24 (Revised)	*Related Party Disclosures* [3]
IAS 32 Amendment	Amendment to IAS 32 *Financial Instruments: Presentation – Classification of Rights Issues* [1]
IFRIC-Int 14 Amendments	Amendments to IFRIC-Int 14 *Prepayments of a Minimum Funding Requirement* [3]
IFRIC-Int 19	*Extinguishing Financial Liabilities with Equity Instruments* [2]

Apart from the above, the IASB has issued *Improvements to IFRSs 2010* which sets out amendments to a number of IFRSs primarily with a view to removing inconsistencies and clarifying wording. The amendments to IFRS 3 and IAS 27 are effective for annual periods beginning on or after 1 July 2010, whereas the amendments to IFRS 1, IFRS 7, IAS 1, IAS 34 and IFRIC-Int 13 are effective for annual periods beginning on or after 1 January 2011 although there are separate transitional provisions for each standard.

[1] Effective for annual periods beginning on or after 1 February 2010
[2] Effective for annual periods beginning on or after 1 July 2010
[3] Effective for annual periods beginning on or after 1 January 2011
[4] Effective for annual periods beginning on or after 1 July 2011
[5] Effective for annual periods beginning on or after 1 January 2012
[6] Effective for annual periods beginning on or after 1 January 2013

Further information about those changes that are expected to significantly affect the Group is as follows:

IFRS 9 is the first part of phase 1 of a comprehensive project to entirely replace IAS 39 *Financial Instruments: Recognition and Measurement*. This phase focuses on the classification and measurement of financial assets. Instead of classifying financial assets into four categories, an entity shall classify financial assets as subsequently measured at either amortised cost or fair value, on the basis of both the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. This aims to improve and simplify the approach for the classification and measurement of financial assets compared with the requirements of IAS 39.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

In October 2010, the IASB issued additions to IFRS 9 to address financial liabilities (the "Additions") and incorporated in IFRS 9 the current derecognition principles of financial instruments of IAS 39. Most of the Additions were carried forward unchanged from IAS 39, while changes were made to the measurement of financial liabilities designated at fair value through profit or loss using the fair value option ("FVO"). For these FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in other comprehensive income ("OCI"). The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. However, loan commitments and financial guarantee contracts which have been designated under the FVO are scoped out of the Additions.

IAS 39 is aimed to be replaced by IFRS 9 in its entirety. Before this entire replacement, the guidance in IAS 39 on hedge accounting and impairment of financial assets continues to apply. The Group expects to adopt IFRS 9 from 1 January 2013.

IAS 24 (Revised) clarifies and simplifies the definition of related parties. It also provides for a partial exemption of related party disclosure to government-related entities for transactions with the same government or entities that are controlled, jointly controlled or significantly influenced by the same government. The Group expects to adopt IAS 24 (Revised) from 1 January 2011 and the comparative related party disclosures will be amended accordingly.

While the adoption of the revised standard will result in changes in the accounting policy, the revised standard is unlikely to have any impact on the related party disclosures.

Improvements to IFRSs 2010 issued in May 2010 sets out amendments to a number of IFRSs. The Group expects to adopt the amendments from 1 January 2011.There are separate transitional provisions for each standard. While the adoption of some of the amendments may result in changes in accounting policies, none of these amendments are expected to have a significant financial impact on the Group. Those amendments that are expected to have a significant impact on the Group's policies are as follows:

(a) IFRS 1 *First-time Adoption of International Financial Reporting Standards*: (i) Clarifies that if a first-time adopter changes its accounting policies or its use of the exemptions in IFRS 1 after it has published an interim financial report in accordance with IAS 34 *Interim Financial Reporting*, it needs to explain those changes and update the reconciliation between the previous GAAP and IFRSs; (ii) allows a first time adopter to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but during the period covered by the first IFRS financial statements or allows an existing IFRS preparer to apply the amendment retrospectively in the first annual period after the amendment is effective; and (iii) expands the scope of deemed cost for property, plant and equipment or intangible assets to include items subject to rate regulated activities.

2.3 ISSUED BUT NOT YET EFFECTIVE INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

(b) IFRS 3 *Business Combinations*: Clarifies that the amendments to IFRS 7, IAS 32 and IAS 39 that eliminate the exemption for contingent consideration do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of IFRS 3 (as revised in 2008).

In addition, the amendments limit the measurement choice of non-controlling interests at fair value or at the proportionate share of the acquiree's identifiable net assets to components of non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation. Other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by another IFRS.

The amendments also added explicit guidance to clarify the accounting treatment for non-replaced and voluntarily replaced share-based payment awards.

(c) IAS 1 *Presentation of Financial Statements*: Clarifies that an analysis of other comprehensive income for each component of equity can be presented either in the statement of changes in equity or in the notes to the financial statements.

(d) IAS 27 *Consolidated and Separate Financial Statements*: Clarifies that the consequential amendments from IAS 27 (as revised in 2008) made to IAS 21, IAS 28 and IAS 31 shall be applied prospectively for annual periods beginning on or after 1 July 2009 or earlier if IAS 27 is applied earlier.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Subsidiaries

A subsidiary is an entity whose financial and operating policies the Company controls, directly or indirectly, so as to obtain benefits from its activities.

The results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

Joint ventures

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Joint ventures (continued)

A joint venture is treated as:

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

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

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

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

Jointly-controlled entities

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

The Group's investments in jointly-controlled entities are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of jointly-controlled entities is included in the consolidated profit or loss and consolidated reserves, respectively. Where the profit sharing ratio is different to the Group's equity interest, the share of post-acquisition results of the jointly-controlled entities is determined based on the agreed profit sharing ratio. Unrealised gains and losses resulting from transactions between the Group and its jointly-controlled entities are eliminated to the extent of the Group's investments in the jointly-controlled entities, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of jointly-controlled entities is included as part of the Group's investments in jointly-controlled entities.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit or loss and consolidated reserves, respectively. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates and is not individually tested for impairment.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

Business combinations and goodwill

Business combinations from 1 January 2010

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value as at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it shall not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the net identifiable assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets of the subsidiary acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Business combinations from 1 January 2010 (continued)

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

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

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

Business combinations prior to 1 January 2010 but after 1 January 2005

In comparison to the above-mentioned requirements which were applied on a prospective basis, the following differences applied to business combinations prior to 1 January 2010:

Business combinations were accounted for using the purchase method. Transaction costs directly attributable to the acquisition formed part of the acquisition costs. The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets.

Business combinations achieved in stages were accounted for as separate steps. Any additional acquired share of interest did not affect previously recognised goodwill.

When the Group acquired a business, embedded derivatives separated from the host contract by the acquiree were not reassessed on acquisition unless the business combination resulted in a change in the terms of the contract that significantly modified the cash flows that otherwise would have been required under the contract.

Contingent consideration was recognised if, and only if, the Group had a present obligation, the economic outflow was more likely than not and a reliable estimate was determinable. Subsequent adjustments to the contingent consideration were recognised as part of goodwill.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, goodwill and non-current assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party, directly or indirectly through one or more intermediaries, (i) controls, is controlled by, or is under common control with, the Group; (ii) has an interest in the Group that gives it significant influence over the Group; or (iii) has joint control over the Group;

(b) the party is an associate;

(c) the party is a jointly-controlled entity;

(d) the party is a member of the key management personnel of the Group or its parent;

(e) the party is a close member of the family of any individual referred to in (a) or (d);

(f) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (d) or (e); or

(g) the party is a post-employment benefit plan for the benefit of the employees of the Group, or of any entity that is a related party of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciation.

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

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

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

Construction in progress represents buildings, plant, machinery and equipment under construction and pending installation, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction, installation and testing. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Patents, licences and technical know-how

Purchased patents, licences and technical know-how are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of five to ten years.

Computer software

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

Research and development costs

All research costs are charged to profit or loss as incurred.

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

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

Leases

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under the operating leases net of any incentives received from the lessor are charged to profit or loss on the straight-line basis over the lease terms.

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

When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

Investments and other financial assets

Initial recognition and measurement

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

Subsequent measurement

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with changes in fair value recognised in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" below.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Financial assets at fair value through profit or loss (continued)

The Group evaluates its financial assets at fair value through profit or loss (held for trading) to assess whether the intent to sell them in the near term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. The reclassification from financial assets at fair value through profit or loss to loans and receivables, available-for-sale financial assets or held-to-maturity investments depends on the nature of the assets. This evaluation does not affect any financial assets designated at fair value through profit or loss using the fair value option at designation.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Loans and receivables

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

Available-for-sale financial investments

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

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

When the fair value of unlisted equity securities cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such securities are stated at cost less any impairment losses.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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

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

Derecognition of financial assets

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

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

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

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

Financial assets carried at amortised cost

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Assets carried at cost

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Available-for-sale financial investments

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

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and 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. The determination of what is "significant" or ''prolonged" requires judgement. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

Financial liabilities

Initial recognition and measurement

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

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

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

Subsequent measurement

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

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 financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by IAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement (continued)

Loans and borrowings

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

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

Financial guarantee contracts

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

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis; and option pricing models.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

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

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint venture, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint venture, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government grants

Government grants are recognised at their fair values where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income over the periods necessary to match the grant on a systematic basis to the costs that it is intended to compensate.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the profit or loss by way of a reduced depreciation charge.

Where the Group receives a non-monetary grant, the asset and the grant are recorded at the fair value of the non-monetary asset and released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for "Financial liabilities" above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

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

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

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument or a shorter period, when appropriate to the net carrying amount of the financial asset; and

(e) dividend income, when the shareholders' right to receive payment has been established.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Retirement benefits

The Company and its subsidiaries established in the PRC are required to participate in a central pension scheme operated by relevant government authorities in the PRC. The Group contributes on a monthly basis to the relevant defined contribution retirement benefit plans, the PRC government undertakes to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. The contributions are charged to the consolidated profit or loss as they become payable, in accordance with the rules of the central pension scheme.

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending for their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

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

Foreign currencies

These financial statements are presented in RMB, which is the Company's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. All differences are taken to profit or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries are currencies other than RMB. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates ruling at the end of the reporting period and their profit or loss is translated into RMB at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into RMB at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into RMB at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Provision against obsolete inventories

Management reviews the condition of inventories of the Group at the end of each reporting period and makes provision against obsolete and slow-moving inventory items identified that are no longer suitable for use or sale. Management estimates the net realisable value for such inventories based primarily on the latest sales invoice prices and current market conditions. Management reassesses the estimation at the end of each reporting period. The carrying amount of inventories as at 31 December 2010 was RMB1,590,491,000 (2009: RMB888,925,000). More details are given in note 22 to the financial statements.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill as at 31 December 2010 was RMB49,209,000 (2009: RMB52,874,000). Further details are given in note 16 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 17 to the financial statements.

Impairment of trade receivables

The policy for impairment of trade receivables of the Group is based on the evaluation of collectability and the ageing analysis of trade receivables and on the judgement of the management. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of the customers. Management reassesses the estimation at the end of each reporting period. The carrying amount of trade receivables as at 31 December 2010 was RMB901,236,000 (2009: RMB742,255,000). More details are given in note 23 to the financial statements.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. As at 31 December 2010, the carrying amount of deferred tax assets was RMB43,678,000 (2009: RMB20,828,000). Futher details are contained in note 33 to the financial statements.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. As at 31 December 2010, the best estimated of the carrying amount of capitalised development costs was RMB25,075,000 (2009: RMB49,971,000). More details are given in note 17 to the financial statements.

Useful lives and residual values of items of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group periodically reviews the changes in market conditions, expected physical wear and tear, and the maintenance of the asset. The estimation of the useful life of the asset is based on historical experience of the Group with similar assets that are used in a similar way. Depreciation amount will be adjusted if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from previous estimation. Useful lives and residual values are reviewed, at the end of each reporting period, based on changes in circumstances. As at 31 December 2010, the carrying amount of property, plant and equipment was RMB1,377,759,000 (2009: RMB1,312,741,000). More details are given in note 14 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for warranties

Provision for product warranties granted by the Group to certain products are recognised based on sales volume and past experience of the level of repairs, discounted to their present values as appropriate. At 31 December 2010, the best estimates of the carrying amounts of warranty provisions were RMB174,520,000 (2009: RMB93,360,000). Further details are given in note 32 to the financial statements.

4. OPERATING SEGMENT INFORMATION

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

Geographical information

(a) Revenue from external customers

	2010	2009
	RMB'000	RMB'000
Mainland China	**5,501,091**	2,983,437
Other countries	**330,187**	342,156
	5,831,278	3,325,593

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

(b) Non-current assets

	2010	2009
	RMB'000	RMB'000
Mainland China	**1,577,215**	1,484,319
Other countries	**220,046**	195,340
	1,797,261	1,679,659

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

Information about a major customer

Revenue, generated from a single customer, including sales to a group of entities which are known to be under common control with that customer, which amounted to more than 10% of the Group's revenue for the year ended 31 December 2010 was RMB3,713,683,000 (2009: three single customers which amounted to more than 10% of the Group's revenue were RMB1,681,455,000, RMB360,529,000 and RMB341,356,000, respectively).

5. REVENUE, OTHER INCOME AND GAINS

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowance for returns and trade discounts, and excludes sale taxes.

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

	Notes	2010 RMB'000	2009 RMB'000
Revenue:			
Sale of goods		**5,831,278**	3,325,593
Other income and gains:			
Bank interest income		**7,992**	15,770
Profit from sale of scrap materials		**8,125**	1,069
Investment income from financial instruments		**580**	3,090
Gross rental income		**6,400**	6,069
Value-added tax refund	(i)	**41,678**	33,600
Technical service income		**6,098**	6,500
Government grants	(ii)	**18,391**	18,559
Gain on disposal of an associate		**43**	—
Others		**6,969**	4,021
		96,276	88,678

(i) Value-added tax refund

Sales of goods are generally subject to value-added tax ("VAT") at a rate of 17%. Pursuant to the "Notice on the Taxation Policy Issues relating to Encouraging the Development of the Software Industry and Integrated Circuit Industry" issued by the State Administration of Taxation and General Administration of Custom, the Group is entitled to a refund of VAT paid in excess of 3% in respect of the sale of certain products during the years ended 31 December 2010 and 2009.

(ii) Government grants

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

6. PROFIT BEFORE TAX

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

	Notes	2010 RMB'000	2009 RMB'000
Cost of inventories sold		**3,679,193**	2,118,287
Staff costs (including directors' and supervisors' remuneration)	(i)	**499,687**	363,762
Auditors' remuneration		**5,420**	5,700
Depreciation	14	**111,733**	76,578
Amortisation of prepaid land lease payments	15	**2,443**	1,753
Amortisation of other intangible assets	17	**23,952**	10,772
Minimum lease payments under operating leases:			
Land and buildings		**6,796**	6,731
Plant and equipment		**2,822**	1,723
		9,618	8,454
Provision/(reversal of provision) against obsolete inventories		**(8,977)**	23,511
Exchange losses, net		**8,472**	2,581
Research and development costs		**318,145**	174,998
Less: staff costs included above		**(132,888)**	(82,757)
development costs capitalised	17	**(1,275)**	(6,136)
Research and development costs, net of staff costs and development costs capitalised		**183,982**	86,105
Loss on disposal of items of property, plant and equipment		**14,263**	1,509
Loss on disposal of other intangible assets		**17,239**	—
Impairment of trade and other receivables		**1,500**	5,873
Impairment of items of property, plant and equipment	14	**25,796**	213
Provision for warranties	32	**193,111**	80,275
Impairment of other intangible assets	17	**131,628**	—
Bank interest income	5	**(7,992)**	(15,770)
Gross rental income	5	**(6,400)**	(6,069)
Gain on disposal of an associate	5	**(43)**	—

6. PROFIT BEFORE TAX (continued)

(i) Staff costs

	2010 RMB'000	2009 RMB'000
Wages, salaries and bonuses	**347,019**	262,405
Contribution to government-operated pension schemes	**35,951**	22,731
Contribution to a pension annuity plan	**16,010**	6,779
Welfare and other expenses	**100,707**	71,847
	499,687	363,762

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

7. FINANCE COSTS

An analysis of finance costs is follows:

	2010 RMB'000	2009 RMB'000
Interest on bank and other borrowings		
wholly repayable within five years	**9,746**	4,778
Interest on bills discounted	**1,718**	3,235
	11,464	8,013

8. DIRECTORS' AND SUPERVISORS' REMUNERATION

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

	2010 RMB'000	2009 RMB'000
Fees	**875**	905
Other emoluments:		
Salaries, allowances and benefits in kind	**896**	1,150
Performance related bonuses	**794**	191
Pension scheme contributions	**76**	33
	2,641	2,279

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2010 are as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Ding Rongjun	—	16	—	—	16
Mr. Li Donglin	—	291	366	20	677
Non-executive directors:					
Mr. Song Yali	12	—	—	—	12
Mr. Lu Penghu	10	—	—	—	10
Mr. Deng Huijin	10	—	—	—	10
Mr. Ma Yunkun	60	—	—	—	60
Mr. Yan Wu	—	24	82	2	108
Independent non-executive directors:					
Mr. Gao Yucai	71	—	—	—	71
Mr. Chan Kam Wing, Clement	214	—	—	—	214
Mr. Pao Ping Wing	214	—	—	—	214
Mr. Tan Xiao'ao	71	—	—	—	71
Ms. Liu Chunru	71	—	—	—	71
	733	331	448	22	1,534
Supervisors:					
Mr. He Wencheng	—	—	—	—	—
Mr. Zhang Liqiang	—	8	—	—	8
Mr. Pang Yiming	—	239	97	27	363
Mr. Zhou Guifa	—	315	249	27	591
Mr. Liu Ke'an	—	3	—	—	3
Mr. Shuai Tianlong	71	—	—	—	71
Ms. Wang Kun	71	—	—	—	71
	142	565	346	54	1,107
	875	896	794	76	2,641

8. DIRECTORS' AND SUPERVISORS' REMUNERATION (continued)

The names of the directors and supervisors of the Company and their remuneration for the year ended 31 December 2009 are as follows:

	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Performance related bonuses RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive directors:					
Mr. Ding Rongjun	—	97	—	—	97
Mr. Lu Penghu	—	573	20	11	604
Non-executive directors:					
Mr. Song Yali	72	—	—	—	72
Mr. Liao Bin	38	—	—	—	38
Mr. Deng Huijin	23	—	—	—	23
Mr. Ma Yunkun	55	—	—	—	55
Independent non-executive directors:					
Mr. Gao Yucai	65	—	—	—	65
Mr. Chan Kam Wing, Clement	196	—	—	—	196
Mr. Pao Ping Wing	196	—	—	—	196
Mr. Tan Xiao'ao	65	—	—	—	65
Ms. Liu Chunru	65	—	—	—	65
	775	670	20	11	1,476
Supervisors:					
Mr. Zhang Liqiang	—	48	—	—	48
Mr. Pang Yiming	—	208	70	11	289
Mr. Liu Ke'an	—	224	101	11	336
Mr. Shuai Tianlong	65	—	—	—	65
Ms. Wang Kun	65	—	—	—	65
	130	480	171	22	803
	905	1,150	191	33	2,279

9. FIVE HIGHEST PAID EMPLOYEES

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

	Group	
	2010	2009
Director and supervisor	**—**	1
Non-director and non-supervisor employees	**5**	4
	5	5

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

	Group	
	2010	2009
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**4,272**	1,453
Performance related bonuses	**980**	541
Pension scheme contributions	**217**	32
	5,469	2,026

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

	2010	2009
Nil to HK$1,000,000	**3**	4
HK$1,000,000 to HK$2,000,000	**1**	—
HK$2,000,000 to HK$2,500,000	**1**	—
	5	4

During the year, no directors, supervisors or any of the non-director and non-supervisor highest paid individuals waived or agreed to waive any emoluments and no emoluments were paid by the Group to the directors, supervisors or any non-director and non-supervisor highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX EXPENSE

Under the relevant PRC Corporate Income Tax Law and the respective regulations, except for the Company's subsidiaries overseas and certain preferential treatment available to the Company and certain Company's subsidiaries in the PRC, which were taxed at a preferential rate of 15% primarily due to their status as entities engaging in technology development or their involvement in the development projects in the western region of PRC, the entities within the Group were subject to corporate income tax at a rate of 25% for the years ended 31 December 2010 and 2009.

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

	2010 RMB'000	2009 RMB'000
Current		
– PRC	158,212	96,824
– Elsewhere	28	19
Deferred (note 33)	(19,883)	(7,007)
Income tax charge for the year	138,357	89,836

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

	2010		2009	
	RMB'000	%	RMB'000	%
Profit before tax	992,033		624,225	
Tax at the statutory tax rate	248,008	25.0	156,056	25.0
Reconciling items:				
Profits and losses attributable to a jointly-controlled entity and associates	(8,596)	(0.9)	(3,917)	(0.6)
Expenses not deductible for tax	29,539	3.0	12,603	2.0
Income not subject to tax	(6,997)	(0.7)	(8,683)	(1.4)
Effect of different income tax rates for overseas entities	90	0.0	178	0.0
Tax exemption	(99,766)	(10.1)	(59,319)	(9.5)
Tax losses not recognised	4,852	0.5	2,200	0.4
Others*	(28,773)	(2.9)	(9,282)	(1.5)
Total tax charge for the year	138,357	13.9	89,836	14.4

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

The share of tax attributable to a jointly-controlled entity and associates amounting to RMB4,528,000 and RMB3,501,000 (2009: RMB1,882,000 and nil),respectively, is included in "Share of profits and losses of a jointly-controlled entity and associates" in the consolidated statement of comprehensive income.

11. PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT

The consolidated profit attributable to owners of the parent for the year ended 31 December 2010 includes a profit of RMB820,647,000 (2009: RMB509,951,000), which has been dealt with in the financial statements of the Company (note 35(b)).

12. DIVIDENDS

	2010 RMB'000	2009 RMB'000
Proposed final – RMB0.305 (2009: RMB0.195) per ordinary share	**330,698**	211,430

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The calculation of the basic earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 1,084,255,637 (2009: 1,084,255,637) in issue during the year, as adjusted to reflect the rights issue during the year.

The calculation of basic earnings per share is based on:

	2010 RMB'000	2009 RMB'000
Earnings:		
Profit attributable to ordinary equity holders of the parent used in the basic earnings per share calculation	**852,143**	530,881

	Number of Shares	
	2010	2009
Shares:		
Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation	**1,084,255,637**	1,084,255,637

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2010 and 2009 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

14. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010					
At 31 December 2009 and at 1 January 2010:					
Cost	625,349	519,652	144,039	380,475	1,669,515
Accumulated depreciation and impairment	(100,244)	(189,732)	(66,798)	—	(356,774)
Net carrying amount	525,105	329,920	77,241	380,475	1,312,741
At 1 January 2010, net of accumulated depreciation and impairment	525,105	329,920	77,241	380,475	1,312,741
Additions	30,755	24,058	21,300	153,835	229,948
Disposals	(4,970)	(2,155)	(3,904)	(7,711)	(18,740)
Depreciation provided during the year (note 6)	(21,819)	(66,059)	(23,855)	—	(111,733)
Impairment (note 6)	(9,412)	(15,500)	(884)	—	(25,796)
Transfers	131,962	186,828	—	(318,790)	—
Exchange realignment	(27)	(4,134)	(6)	(4,494)	(8,661)
At 31 December 2010, net of accumulated depreciation and impairment	651,594	452,958	69,892	203,315	1,377,759
At 31 December 2010:					
Cost	781,473	709,331	144,488	203,315	1,838,607
Accumulated depreciation and impairment	(129,879)	(256,373)	(74,596)	—	(460,848)
Net carrying amount	651,594	452,958	69,892	203,315	1,377,759

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Group (continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009					
At 1 January 2009:					
Cost	487,482	324,404	118,405	262,712	1,193,003
Accumulated depreciation and impairment	(83,857)	(121,004)	(53,065)	(1,827)	(259,753)
Net carrying amount	403,625	203,400	65,340	260,885	933,250
At 1 January 2009, net of accumulated depreciation and impairment	403,625	203,400	65,340	260,885	933,250
Additions	21,233	99,501	30,905	302,986	454,625
Disposals	(1,358)	(2,298)	(482)	—	(4,138)
Disposal of a subsidiary (note 36)	—	(269)	(65)	—	(334)
Depreciation provided during the year (note 6)	(17,537)	(39,233)	(19,808)	—	(76,578)
Impairment (note 6)	—	(213)	—	—	(213)
Transfers	119,142	66,003	1,351	(186,496)	—
Exchange realignment	—	3,029	—	3,100	6,129
At 31 December 2009, net of accumulated depreciation and impairment	525,105	329,920	77,241	380,475	1,312,741
At 31 December 2009:					
Cost	625,349	519,652	144,039	380,475	1,669,515
Accumulated depreciation and impairment	(100,244)	(189,732)	(66,798)	—	(356,774)
Net carrying amount	525,105	329,920	77,241	380,475	1,312,741

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2010					
At 31 December 2009 and at 1 January 2010:					
Cost	436,758	385,266	109,576	326,029	1,257,629
Accumulated depreciation and impairment	(73,678)	(139,241)	(54,573)	—	(267,492)
Net carrying amount	363,080	246,025	55,003	326,029	990,137
At 1 January 2010, net of accumulated depreciation and impairment	363,080	246,025	55,003	326,029	990,137
Additions	13,763	26,334	16,004	74,524	130,625
Disposals	(3,517)	(1,974)	(3,459)	(7,711)	(16,661)
Depreciation provided during the year	(14,843)	(50,327)	(17,766)	—	(82,936)
Impairment	(9,412)	(15,220)	(119)	—	(24,751)
Transfers	110,200	121,604	—	(231,804)	—
At 31 December 2010, net of accumulated depreciation and impairment	459,271	326,442	49,663	161,038	996,414
At 31 December 2010:					
Cost	555,610	526,011	109,080	161,038	1,351,739
Accumulated depreciation and impairment	(96,339)	(199,569)	(59,417)	—	(355,325)
Net carrying amount	459,271	326,442	49,663	161,038	996,414

14. PROPERTY, PLANT AND EQUIPMENT (continued)

Company (continued)

	Buildings RMB'000	Plant, machinery and equipment RMB'000	Computer equipment and others RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2009					
At 1 January 2009:					
Cost	324,885	271,114	88,908	252,396	937,303
Accumulated depreciation and impairment	(62,785)	(111,083)	(41,095)	—	(214,963)
Net carrying amount	262,100	160,031	47,813	252,396	722,340
At 1 January 2009, net of accumulated depreciation and impairment	262,100	160,031	47,813	252,396	722,340
Additions	3,354	89,429	21,773	213,727	328,283
Disposals	(672)	(1,917)	(188)	—	(2,777)
Depreciation provided during the year	(11,786)	(30,829)	(15,094)	—	(57,709)
Transfers	110,084	29,311	699	(140,094)	—
At 31 December 2009, net of accumulated depreciation and impairment	363,080	246,025	55,003	326,029	990,137
At 31 December 2009:					
Cost	436,758	385,266	109,576	326,029	1,257,629
Accumulated depreciation and impairment	(73,678)	(139,241)	(54,573)	—	(267,492)
Net carrying amount	363,080	246,025	55,003	326,029	990,137

At 31 December 2010, certain of the Group's property, plant and equipment with a net carrying amount of approximately RMB2,745,000 (2009: RMB3,762,000) were pledged to secure certain bank loans of the Group (note 30) .

15. PREPAID LAND LEASE PAYMENTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Carrying amount at 1 January	**102,490**	73,937	**49,931**	50,973
Additions	**—**	30,306	**—**	—
Amortisation provided during the year (note 6)	**(2,443)**	(1,753)	**(1,042)**	(1,042)
Carrying amount at 31 December	**100,047**	102,490	**48,889**	49,931

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

16. GOODWILL

Group

	RMB'000
At 1 January 2009:	
Cost	47,743
Accumulated impairment	—
Net carrying amount	47,743
Cost at 1 January 2009, net of accumulated impairment	47,743
Impairment during the year	—
Exchange realignment	5,131
At 31 December 2009	52,874
At 31 December 2009:	
Cost	52,874
Accumulated impairment	—
Net carrying amount	52,874
Cost at 1 January 2010, net of accumulated impairment	**52,874**
Impairment during the year	**—**
Exchange realignment	**(3,665)**
Cost and net carrying amount at 31 December 2010	**49,209**
At 31 December 2010:	
Cost	**49,209**
Accumulated impairment	**—**
Net carrying amount	**49,209**

16. GOODWILL (continued)

Impairment testing of goodwill

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

Key assumptions were used in the value in use calculation of the CGU of power semiconductors and integrated circuit products for the year ended 31 December 2010. The following describes each key assumption on which management has based its cash flow projections to undertake the impairment testing of goodwill:

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

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

17. OTHER INTANGIBLE ASSETS

Group

	Patents, licences and technical know-how RMB'000	Computer software RMB'000	Deferred Development costs RMB'000	Total RMB'000
31 December 2010				
Cost at 1 January 2010, net of accumulated amortisation	**29,650**	**15,049**	**49,971**	**94,670**
Additions	**131,670**	**6,472**	**1,275**	**139,417**
Amortisation provided during the year (note 6)	**(5,809)**	**(4,908)**	**(13,235)**	**(23,952)**
Disposals	**(3,357)**	**(946)**	**(12,936)**	**(17,239)**
Impairment (note 6)	**(131,628)**	**—**	**—**	**(131,628)**
Exchange realignment	**(2,153)**	**—**	**—**	**(2,153)**
At 31 December 2010	**18,373**	**15,667**	**25,075**	**59,115**
At 31 December 2010:				
Cost	**158,633**	**25,060**	**39,542**	**223,235**
Accumulated amortisation and impairment	**(140,260)**	**(9,393)**	**(14,467)**	**(164,120)**
Net carrying amount	**18,373**	**15,667**	**25,075**	**59,115**
31 December 2009				
At 1 January 2009:				
Cost	41,764	13,345	47,003	102,112
Accumulated amortisation	(9,677)	(4,878)	—	(14,555)
Net carrying amount	32,087	8,467	47,003	87,557
Cost at 1 January 2009, net of accumulated amortisation	32,087	8,467	47,003	87,557
Additions	—	9,182	6,136	15,318
Amortisation provided during the year (note 6)	(5,004)	(2,600)	(3,168)	(10,772)
Exchange realignment	2,567	—	—	2,567
At 31 December 2009	29,650	15,049	49,971	94,670
At 31 December 2009 and at 1 January 2010:				
Cost	44,639	22,527	53,139	120,305
Accumulated amortisation	(14,989)	(7,478)	(3,168)	(25,635)
Net carrying amount	29,650	15,049	49,971	94,670

17. OTHER INTANGIBLE ASSETS (continued)

Company

	Patents, licences and technical know-how RMB'000	Computer software RMB'000	Deferred Development costs RMB'000	Total RMB'000
31 December 2010				
Cost at 1 January 2010, net of accumulated amortisation	3,325	16,899	44,912	65,136
Reclassification	2,034	(2,034)	—	—
Additions	131,670	6,288	1,275	139,233
Amortisation provided during the year	(1,885)	(4,776)	(11,943)	(18,604)
Disposals	(3,357)	(905)	(12,937)	(17,199)
Impairment	(131,628)	—	—	(131,628)
At 31 December 2010	159	15,472	21,307	36,938
At 31 December 2010:				
Cost	132,148	24,639	33,867	190,654
Accumulated amortisation and impairment	(131,989)	(9,167)	(12,560)	(153,716)
Net carrying amount	159	15,472	21,307	36,938
31 December 2009				
At 1 January 2009:				
Cost	16,100	12,120	41,327	69,547
Accumulated amortisation	(9,630)	(3,993)	—	(13,623)
Net carrying amount	6,470	8,127	41,327	55,924
Cost at 1 January 2009, net of accumulated amortisation	6,470	8,127	41,327	55,924
Additions	—	9,182	6,136	15,318
Amortisation provided during the year	(3,145)	(410)	(2,551)	(6,106)
At 31 December 2009	3,325	16,899	44,912	65,136
At 31 December 2009 and at 1 January 2010:				
Cost	16,100	21,302	47,463	84,865
Accumulated amortisation	(12,775)	(4,403)	(2,551)	(19,729)
Net carrying amount	3,325	16,899	44,912	65,136

17. OTHER INTANGIBLE ASSETS (continued)

In 2007, the Company entered into an agreement and pursuant to which, the Company intended to acquire a licence and technical know-how of approximately RMB131,628,000 to gain certain rights to produce and sell a type of product. During the year ended 31 December 2010, the right of such licence and technical know-how was acquired by the Company and thus an intangible asset of RMB131,628,000 was recognised during the year. However, in view of the change in market demand, the directors considered the carrying value of such licence and technical know-how are irrecoverable after taking into consideration the estimated future revenue. Impairment loss of approximately RMB131,628,000 are recognised accordingly.

18. INVESTMENTS IN SUBSIDIARIES

	Company	
	2010	2009
	RMB'000	RMB'000
Unlisted investments, at cost	**375,141**	257,141
Listed investments, at cost	**216,540**	216,540
	591,681	473,681

Particulars of the principal subsidiaries as at 31 December 2010 are as follows:

Name	Notes	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Ningbo CSR Times Sensor Technology Co., Ltd. ("Ningbo Times")		PRC/ Mainland China	RMB48,826,200	100	—	Manufacture and sale of sensors and vacuum sanitary units
Zhuzhou Times Electronics Technology Co., Ltd. ("Times Electronics")		PRC/ Mainland China	RMB80,000,000	100	—	Manufacture and sale of electrical control systems for large railway maintenance vehicles
Zhuzhou Times Equipment Technology Co., Ltd. ("Times Equipment")		PRC/ Mainland China	RMB36,000,000	100	—	Manufacture and sale of vibration absorber and testing equipment
Beijing CSR Times Information Technology Co., Ltd. ("Times Information")		PRC/ Mainland China	RMB29,000,000	100	—	Manufacture and sale of train operation safety equipment
Kunming CSR Electric Equipment Co., Ltd. ("Kunming Electric")	(i)	PRC/ Mainland China	RMB3,000,000	100	—	Manufacture and sale of sub-way operation electrical systems

18. INVESTMENTS IN SUBSIDIARIES (continued)

Name	Notes	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Hangzhou CSR Electric Equipment Co., Ltd. ("Hangzhou Electric")	(ii)	PRC/ Mainland China	RMB15,000,000	100	—	Manufacture and sale of train-borne electrical systems
Shenyang CSR Times Transportation Equipment Co., Ltd. ("Shenyang Times")		PRC/ Mainland China	RMB3,000,000	100	—	Manufacture and sale of electric components for rail transit vehicles
Baoji CSR Times Engineering Machinery Co., Ltd. ("Baoji Times")	(iii)	PRC/ Mainland China	RMB200,000,000	80	—	Manufacture and sale of large railway and urban rail work machines and vehicles
Dynex Power Inc. ("Dynex Power")		Canada	CAD37,096,192	75	—	Investment holding
Dynex Semiconductor Limited ("Dynex Semiconductor")		United Kingdom	GBP15,000,000	—	75	Manufacture and sale of power semiconductors and integrated circuit products

Notes:

(i) Kunming Electric was incorporated by the Company in July 2010.

(ii) Hangzhou Electric was incorporated by the Company in December 2010.

(iii) In November 2010, the Company made a capital contribution of RMB100,000,000 to its subsidiary, Baoji Times, the percentage of equity interest attributable to the Company was raised from 60% to 80% thereafter.

All the above subsidiaries are limited liability companies.

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

19. INVESTMENT IN A JOINTLY-CONTROLLED ENTITY

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investment, at cost	**—**	—	**63,515**	63,515
Share of net assets	**122,692**	97,091	**—**	—
	122,692	97,091	**63,515**	63,515

Particulars of the jointly-controlled entity as at 31 December 2010 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Zhuzhou Shiling Transportation Equipment Co., Ltd. ("Zhuhzou Shiling")	PRC/ Mainland China	US$14,000,000	50	—	Manufacture and sale of electric components for rail transit vehicles

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

	2010	2009
	RMB'000	RMB'000
Share of the jointly-controlled entity's assets and liabilities:		
Current assets	**116,142**	77,695
Non-current assets	**32,345**	28,719
Current liabilities	**(25,795)**	(9,323)
Net assets	**122,692**	97,091
Share of the jointly-controlled entity's results:		
Revenue	**99,236**	76,798
Other income	**655**	1,551
	99,891	78,349
Total expenses	**(64,263)**	(60,700)
Tax	**(4,528)**	(1,882)
Profit after tax	**31,100**	15,767

20. INVESTMENTS IN ASSOCIATES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Unlisted investments, at cost	**—**	—	**19,180**	19,180
Share of net assets	**43,564**	18,345	**—**	—
Goodwill on acquisition	**1,448**	1,448	**—**	—
	45,012	19,793	**19,180**	19,180

Particulars of the associate as at 31 December 2010 are as follows:

Name	Place of incorporation/ registration and operations	Paid-up/ registered capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Siemens Traction Equipment Ltd., Zhuzhou ("Zhuzhou Siemens")	PRC/ Mainland China	RMB128,989,000	30	—	Manufacture and sale of electric components for electric locomotives

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

	2010	2009
	RMB'000	RMB'000
Share of the associates' assets and liabilities:		
Current assets	**142,228**	88,499
Non-current assets	**10,186**	6,668
Current liabilities	**(79,152)**	(76,804)
Non-current liabilities	**(29,698)**	(18)
Net assets	**43,564**	18,345
Share of the associates' results:		
Revenue	**208,513**	41,336
Other income	**49**	7
	208,562	41,343
Total expenses	**(178,857)**	(41,440)
Tax	**(3,501)**	—
Profit after tax	**26,204**	(97)

21. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2010	2009
	RMB'000	RMB'000
At cost:		
Unlisted equity investments	**400**	400

Unlisted equity investments of the Group are not stated at fair value but at cost less any accumulated impairment losses, because they do not have a quoted market price in an active market, the range of reasonable fair values estimates is significant and the probabilities of the various estimates cannot be reasonably assessed.

22. INVENTORIES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Raw materials	**449,643**	343,558	**379,963**	271,400
Work in progress	**338,899**	211,072	**252,072**	164,534
Finished goods	**796,462**	332,339	**771,351**	309,383
Consumables and packing materials	**5,487**	1,956	**5,444**	1,824
	1,590,491	888,925	**1,408,830**	747,141

23. TRADE RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables	**935,478**	778,008	**704,445**	564,776
Impairment	**(34,242)**	(35,753)	**(28,227)**	(30,735)
	901,236	742,255	**676,218**	534,041

The credit period of individual customers is considered on a case-by-case basis and set out in the sales contracts, as appropriate. However, in the opinion of the directors, the Group has effectively granted an average credit period of around six months to the customers after taking into account the practice of the industry in which the Group conducted its business. The Group seeks to maintain strict control over its outstanding receivables and to closely monitor on them to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group's credit risk maximum exposure in respect of trade receivables is equal to the carrying amount of the trade receivables.

23. TRADE RECEIVABLES (continued)

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 6 months	**733,030**	624,965	**542,840**	430,791
6 months to 1 year	**88,032**	86,204	**64,718**	77,782
1 to 2 years	**71,486**	27,710	**60,495**	22,750
2 to 3 years	**8,688**	3,376	**8,165**	2,718
	901,236	742,255	**676,218**	534,041

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
At 1 January	**35,753**	34,993	**30,735**	30,134
Impairment losses recognised	**3,003**	6,138	**743**	5,404
Amount written off as uncollectible	**(3,333)**	(2,411)	**(3,251)**	(1,711)
Impairment losses reversed	**(1,125)**	(4,433)	**—**	(3,092)
Exchange realignment	**(56)**	1,466	**—**	—
	34,242	35,753	**28,227**	30,735

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of RMB1,554,000 (2009: RMB6,740,000) with a carrying amount before provision of RMB1,554,000 (2009: RMB6,740,000). The Group does not hold collateral or other credit enhancements over these balances.

23. TRADE RECEIVABLES (continued)

The aged analysis of the trade receivables that are not individually nor collectively considered to be impaired is as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Neither past due nor impaired	**733,030**	625,402	**542,840**	430,803

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

The amounts due from the related parties of the Group included in the trade receivables are analysed as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Trade receivables from:				
CSRG and its subsidiaries				
(other than the Group)	**186,347**	174,308	**179,424**	172,082
Subsidiaries	**—**	—	**21,314**	8,433
Jointly-controlled entity	**—**	111	**—**	49
	186,347	174,419	**200,738**	180,564

The above balances due from related parties are unsecured, interest-free and repayable on similar credit terms to those offered to the major customers of the Group and the Company.

24. BILLS RECEIVABLE

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**374,756**	55,599	**352,821**	15,520
3 to 6 months	**416,693**	635,591	**360,864**	598,515
	791,449	691,190	**713,685**	614,035

The above balances are neither past due nor impaired.

24. BILLS RECEIVABLE (continued)

The amounts due from the related parties included in the bills receivable are analysed as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
CSRG and its subsidiaries (other than the Group)	**541,164**	573,450	**525,063**	573,450

The above balances due from related parties are interest-free and repayable on similar credit terms to those offered to the major customers of the Group and the Company.

At 31 December 2010, certain bills receivable of the Group amounting to RMB74,226,000 (2009: nil) are pledged to banks for the issuance of the Group's bills payable.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Prepayments	**143,234**	161,186	**126,526**	162,597
Deposits and other receivables	**106,568**	48,895	**251,729**	166,689
	249,802	210,081	**378,255**	329,286
Portion classified as non-current assets	**(43,427)**	—	**(33,427)**	—
Current portion	**206,375**	210,081	**344,828**	329,286

The amounts due from the related parties included in the prepayments, deposits and other receivables are analysed as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
CSRG and its subsidiaries (other than the Group)	**191**	7,676	**141**	7,676
Subsidiaries	**—**	—	**195,841**	150,846
Associates	**47**	2,858	**47**	2,858
	238	10,534	**196,029**	161,380

The above balances due from related parties are unsecured, interest-free and repayable on demand.

26. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Cash and bank balances	**1,014,981**	1,048,434	**724,580**	710,735
Time deposits	**666,478**	118,939	**602,624**	81,790
	1,681,459	1,167,373	**1,327,204**	792,525
Less: Pledged deposits against banking facilities	**(111,980)**	(28,811)	**(83,003)**	(21,790)
Cash and cash equivalents in the consolidated statement of financial position	**1,569,479**	1,138,562	**1,244,201**	770,735
Less: Non-pledged time deposits with original maturity of three months or more when acquired	**—**	(90,128)		
Cash and cash equivalents in the consolidated statement of cash flows	**1,569,479**	1,048,434		
Cash and bank balances and time deposits denominated in:				
– RMB	**1,624,092**	983,618	**1,299,815**	762,512
– Canadian dollar	**1,155**	116,654	**—**	—
– Hong Kong dollar	**8,974**	24,376	**8,974**	24,376
– United States dollar	**38,696**	12,150	**18,209**	5,599
– Great British pound	**5,925**	30,117	**2**	—
– European currency unit	**2,617**	454	**204**	34
– Japanese yen	**—**	4	**—**	4
	1,681,459	1,167,373	**1,327,204**	792,525

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

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between one day and three months (2009: one day to one year), depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

At 31 December 2010, certain time deposits of the Group amounting to RMB111,980,000 (2009: RMB28,811,000) are pledged to banks for the issuance of the Group's bills payable, and for the grant of banking facilities to the Group.

27. TRADE PAYABLES

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**872,138**	541,086	**819,955**	560,734
3 months to 1 year	**125,730**	153,077	**92,954**	65,726
1 to 2 years	**11,361**	22,562	**10,605**	20,905
2 to 3 years	**1,884**	872	**1,320**	933
Over 3 years	**1,524**	784	**1,374**	634
	1,012,637	718,381	**926,208**	648,932

The amounts due to the related parties of the Group included in the trade payables are analysed as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
CSRG and its subsidiaries (other than the Group)	**30,905**	27,758	**24,757**	27,739
Subsidiaries	**—**	—	**71,021**	60,267
Jointly-controlled entity	**80,529**	63,176	**80,529**	63,176
	111,434	90,934	**176,307**	151,182

The above balances due to the related parties are unsecured, interest-free and repayable on similar credit terms to those offered by major suppliers of the Group and the Company. The trade payables are non-interest-bearing and are normally settled on 90-day terms.

28. BILLS PAYABLE

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within 3 months	**102,805**	75,726	**95,300**	75,726
3 to 6 months	**93,282**	87,054	**66,250**	66,290
	196,087	162,780	**161,550**	142,016

28. BILLS PAYABLE (continued)

The amounts due to the related parties included in the bills payable are analysed as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
CSRG and its subsidiaries (other than the Group)	**1,775**	1,260	**—**	1,260
Subsidiaries	**—**	—	**—**	300
Jointly-controlled entity	**—**	17,592	**—**	17,592
	1,775	18,852	**—**	19,152

The above balances due to related parties are interest-free and repayable on similar credit terms to those offered by major suppliers of the Group and the Company.

29. OTHER PAYABLES AND ACCRUALS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Receipts in advance	**243,058**	200,832	**187,194**	192,211
Other payables	**92,120**	86,689	**63,723**	96,575
Accruals	**56,839**	34,757	**42,339**	16,624
	392,017	322,278	**293,256**	305,410

The amounts due to the related parties included in the other payables and accruals are analysed as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
CSRG and its subsidiaries (other than the Group)	**33,943**	13,377	**33,943**	13,377
Subsidiaries	**—**	—	**3,604**	51,779
	33,943	13,377	**37,547**	65,156

The above balances due to related parties are unsecured, interest-free and repayable on demand.

30. INTEREST-BEARING BANK AND OTHER BORROWINGS

Group

	2010			2009		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – secured	—	—	—	1.86 - 7.20	2010	105,518
Bank loans – unsecured	—	—	—	2.25	2010	14,381
Short term bond – unsecured	3.18	2011	500,000	—	—	—
Current portion of long-term:						
bank loans – secured	5.96 - 6.56	2011	733	4.74 - 6.56	2010	737
other borrowings – unsecured	Interest-free	2011	6	Interest-free	2010	164
			500,739			120,800
Non-current						
Bank loans – secured	5.95 - 6.56	2012 - 2015	2,333	4.74 - 6.56	2011 - 2015	3,326
Other borrowings – unsecured	—	—	—	Interest-free	2011	4
			2,333			3,330
			503,072			124,130

Company

	2010			2009		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	—	—	—	2.25	2010	14,381
Short term bond – unsecured	3.18	2011	500,000	—	—	—
			500,000			14,381

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Analysed into:				
Bank loans repayable:				
Within one year or on demand	**733**	120,636	**—**	14,381
In the second year	**824**	826	**—**	—
In the third to fifth years, inclusive	**1,509**	2,275	**—**	—
Beyond five years	**—**	225	**—**	—
	3,066	123,962	**—**	14,381
Other borrowings repayable:				
Within one year or on demand	**6**	164	**—**	—
In the second year	**—**	4	**—**	—
	6	168	**—**	—
Short term bond repayable:				
Within one year	**500,000**	—	**500,000**	—
	503,072	124,130	**500,000**	14,381

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Interest-bearing bank and other borrowings denominated in:				
RMB	**500,000**	—	**500,000**	—
Great British pound	**3,072**	96,021	**—**	—
European currency unit	**—**	9,935	**—**	—
United states dollar	**—**	3,793	**—**	—
Japanese yen	**—**	14,381	**—**	14,381
	503,072	124,130	**500,000**	14,381

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

Notes:

(a) Certain of the Group's bank loans are secured by the pledge of certain of the Group's property, plant and equipment amounting to RMB2,745,000 (2009: RMB3,762,000);

(b) At 31 December 2009, certain bank loans of the Group were secured by first charge on a subsidiary's property, plant and equipment, inventories, cash and trade receivables with an aggregate net carrying value of RMB353,788,000.

31. GOVERNMENT GRANTS

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Government grants	**85,555**	41,898	**74,520**	31,656
Portion classified as current liabilities	**(50,585)**	(4,656)	**(50,378)**	(4,656)
Non-current portion	**34,970**	37,242	**24,142**	27,000

The movements of the government grants are analysed as follows:

	Group	**Company**
	RMB'000	**RMB'000**
31 December 2010		
At 1 January 2010	**41,898**	**31,656**
Entitled during the year	**62,048**	**54,102**
Recognised as other income during the year	**(18,391)**	**(11,238)**
At 31 December 2010	**85,555**	**74,520**

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

32. PROVISION FOR WARRANTIES

	Group		Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of year	93,360	51,573	81,368	40,266
Additional provision (note 6)	193,111	80,275	194,489	77,415
Amounts utilised during the year	(111,951)	(38,488)	(107,762)	(36,313)
At end of year	174,520	93,360	168,095	81,368
Portion classified as current liabilities	(83,370)	(93,360)	(80,173)	(81,368)
Non-current portion	91,150	—	87,922	—

The Group generally provides one to four year warranties to its customers on certain of its products, under which faulty products are repaired or replaced. The amount of provision is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

33. DEFERRED TAX

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

Group

	2010				2009		
	Government grants	Warranty provision	Assets impairment	Total	Government grants	Warranty provision	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	6,824	14,004	—	20,828	4,990	7,640	12,630
Deferred tax credited to profit or loss during the year (note 10)	6,914	11,961	3,975	22,850	1, 834	6,364	8,198
At 31 December	13,738	25,965	3,975	43,678	6,824	14,004	20,828

33. DEFERRED TAX (continued)

Company

	2010				2009		
	Government grants RMB'000	Warranty provision RMB'000	Assets impairment RMB'000	Total RMB'000	Government grants RMB'000	Warranty provision RMB'000	Total RMB'000
At 1 January	4,359	12,205	—	16,564	4,964	5,981	10,945
Deferred tax credited to profit or loss during the year	6,819	13,009	3,713	23,541	(605)	6,224	5,619
At 31 December	11,178	25,214	3,713	40,105	4,359	12,205	16,564

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

Group

	2010			2009		
	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000	Depreciation allowance in excess of related depreciation RMB'000	Fair value adjustments arising from acquisition of subsidiaries RMB'000	Total RMB'000
At 1 January	2,469	8,492	10,961	—	8,876	8,876
Deferred tax charged/ (credited) to profit or loss during the year (note 10)	4,239	(1,272)	2,967	2,469	(1,278)	1,191
Exchange realignment	(287)	(742)	(1,029)	—	894	894
At 31 December	6,421	6,478	12,899	2,469	8,492	10,961

34. SHARE CAPITAL

	2010 RMB'000	2009 RMB'000
Registered, issued and fully paid		
Domestic shares of RMB1.00 each	628,148	628,148
H shares of RMB1.00 each	456,108	456,108
	1,084,256	1,084,256

There was no movement in the share capital during the years ended 31 December 2010 and 2009.

35. RESERVES

(a) Group

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

(b) Company

	Note	Capital reserve RMB'000	Statutory reserve RMB'000	Retained profits RMB'000	Proposed final dividend RMB'000	Total RMB'000
At 1 January 2009		1,486,348	87,692	262,616	168,060	2,004,716
Total comprehensive income for the year		—	—	509,951	—	509,951
Final 2008 dividend declared		—	—	(197)	(168,060)	(168,257)
Transfer from retained profits		—	52,115	(52,115)	—	—
Proposed final 2009 dividend	12	—	—	(211,430)	211,430	—
At 31 December 2009 and 1 January 2010		**1,486,348**	**139,807**	**508,825**	**211,430**	**2,346,410**
Total comprehensive income for the year		**—**	**—**	**820,647**	**—**	**820,647**
Final 2009 dividend declared		**—**	**—**	**—**	**(211,430)**	**(211,430)**
Transfer from retained profits		**—**	**87,254**	**(87,254)**	**—**	**—**
Proposed final 2010 dividend	12	**—**	**—**	**(330,698)**	**330,698**	**—**
At 31 December 2010		**1,486,348***	**227,061***	**911,520***	**330,698**	**2,955,627**

* These reserve accounts comprise the reserves of RMB2,624,929,000 (2009: RMB2,134,980,000) in the Company's statement of financial position.

Notes:

In accordance with the articles of association of the Company, the net profit after tax of the Company for the purpose of profit distribution will be deemed to be the lesser of (i) the net profit determined in accordance with the PRC generally accepted accounting principles ("PRC GAAP") and (ii) the net profit determined in accordance with IFRSs.

35. RESERVES (continued)

(b) Company (continued)

Under the PRC Company Law and the Company's articles of association, the net profit after tax can only be distributed as dividends after allowances have been made for the following:

(i) Making up prior years' cumulative losses, if any.

(ii) Allocations to the statutory common reserve fund of at least 10% of after-tax profit, until the fund aggregates to 50% of the Company's issued share capital. For the purpose of calculating the transfer to reserve, the profit after tax shall be the amount determined under PRC GAAP. The transfer to this reserve must be made before any distribution of dividends to shareholders.

The statutory common reserve fund can be used to offset previous years' losses, if any, and part of the statutory common reserve fund can be capitalised as the Company's share capital provided that the amount of this reserve remaining after the capitalisation shall not be less than 25% of the share capital of the Company before the capitalisation.

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

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

During the year, the directors of the Company approved the appropriation of RMB87,254,000 (2009: RMB52,115,000) to the statutory common reserve fund, which represented 10% of the net profit of the Company for the year ended 31 December 2010, as determined under PRC GAAP.

For dividend purposes, the amount which the Company's PRC subsidiaries can legally distribute by way of a dividend is determined with reference to their profits available for distribution, as reflected in their respective financial statements that are prepared in accordance with PRC GAAP. These profits differ from those dealt with in the financial statements which are prepared in accordance with IFRSs.

36. DISPOSAL OF A SUBSIDIARY

On 31 December 2009, the Group had agreed with other shareholders of Zhuzhou Times Zhuoyue Automotive Electronics Technology Co., Ltd. ("Times Zhuoyue") that their voting rights in Times Zhuoyue will no longer be conferred to the Group. Hence the Group had lost control over Times Zhuoyue and Times Zhuoyue was changed from a subsidiary to an associate of the Group at 31 December 2009, which was accounted for as a disposal of a subsidiary as below:

	Note	2009 RMB'000
Net assets disposed of:		
Property, plant and equipment	14	334
Cash and bank balances		1,130
Trade receivables		737
Inventories		374
Prepayments and other receivables		68
Trade payables		(171)
Accruals and other payables		(12)
Non-controlling interests		(1,476)
		984
Satisfied by:		
Investments in associates		984

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

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

37. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities. As at 31 December 2009, contingent liabilities not provided for in the financial statements were as follows:

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

The above banking facilities guaranteed by the Company were utilised to the extent of approximately RMB80,299,000.

38. OPERATING LEASE ARRANGEMENTS

(i) As lessor

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

As at 31 December 2010, the Group and the Company had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group		**Company**	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Within one year	**5,479**	4,927	**4,361**	3,607
In the second to fifth years, inclusive	**10,590**	15,183	**10,590**	14,100
	16,069	20,110	**14,951**	17,707

38. OPERATING LEASE ARRANGEMENTS (continued)

(ii) As lessee

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

As at 31 December 2010, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Within one year	**5,859**	5,844	**710**	586
In the second to fifth years, inclusive	**14,370**	15,259	**888**	249
After five years	**7,142**	11,750	**—**	—
	27,371	32,853	**1,598**	835

39. COMMITMENTS

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

	Group		Company	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Contracted, but not provided for:				
Property, plant and equipment	**189,157**	234,745	**152,324**	150,987
Other intangible assets	**2,316**	106,453	**2,316**	106,453
	191,473	341,198	**154,640**	257,440
Authorised, but not contracted for:				
Property plant and equipment	**175,446**	393,038	**159,561**	213,938
Other intangible assets	**9,530**	30,478	**9,530**	30,478
Capital contributions payable to a subsidiary	**—**	—	**—**	100,000
	184,976	423,516	**169,091**	344,416

40. RELATED PARTY TRANSACTIONS

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

	Group	
	2010	2009
	RMB'000	RMB'000
Transactions with CSRG and its subsidiaries:		
Sales of goods	**3,713,683**	1,681,455
Income for providing technical service	**2,013**	6,500
Purchases of materials and components	**519,649**	181,192
Sales of electricity	**876**	1,251
Rental expenses for lease of items of property, plant and machinery	**118**	742
Rental income from lease of items of property, plant and machinery	**2,515**	3,207
Transactions with a jointly-controlled entity:		
Sales of goods	**608**	1,091
Purchases of materials and components	**193,690**	164,866
Sales of electricity	**936**	—
Transactions with an associate:		
Rental income from lease of items of property, plant and machinery	**3,587**	2,690

In the opinion of the directors, the above transactions arise from the ordinary course of the Group's business and were conducted in accordance with mutually agreed terms.

(ii) Details of the Group's balances with related parties as at the end of the reporting period are disclosed in notes 23, 24, 25, 27, 28 and 29 to the financial statements.

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

	2010	2009
	RMB'000	RMB'000
Short term employee benefits	**2,565**	2,246
Post-employment benefits	**76**	33
Total compensation paid to key management personnel	**2,641**	2,279

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

41. FINANCIAL INSTRUMENTS BY CATEGORY

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

Group

Financial assets

	2010 Loans and receivables RMB'000	2010 Available-for-sale financial assets RMB'000	2010 Total RMB'000	2009 Loans and receivables RMB'000	2009 Available-for-sale financial assets RMB'000	2009 Total RMB'000
Available-for-sale investments	—	400	400	—	400	400
Trade receivables	901,236	—	901,236	742,255	—	742,255
Bills receivable	791,449	—	791,449	691,190	—	691,190
Financial assets included in prepayments, deposits and other receivables	26,650	—	26,650	34,908	—	34,908
Pledged deposits	111,980	—	111,980	28,811	—	28,811
Cash and cash equivalents	1,569,479	—	1,569,479	1,138,562	—	1,138,562
	3,400,794	400	3,401,194	2,635,726	400	2,636,126

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	503,072	124,130
Trade payables	1,012,637	718,381
Bills payable	196,087	162,780
Financial liabilities included in other payables and accruals	110,352	73,194
	1,822,148	1,078,485

41. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

Company

Financial assets

	2010 Loans and receivables RMB'000	2009 Loans and receivables RMB'000
Trade receivables	**676,218**	534,041
Bills receivable	**713,685**	614,035
Financial assets included in prepayments, deposits and other receivables	**179,634**	150,625
Pledged deposits	**83,003**	21,790
Cash and cash equivalents	**1,244,201**	770,735
	2,896,741	2,091,226

Financial liabilities

	2010 Financial liabilities at amortised cost RMB'000	2009 Financial liabilities at amortised cost RMB'000
Interest-bearing bank and other borrowings	**500,000**	14,381
Trade payables	**926,208**	648,932
Bills payable	**161,550**	142,016
Financial liabilities included in other payables and accruals	**81,955**	93,975
	1,669,713	899,304

42. FAIR VALUE AND FAIR VALUE HIERARCHY

The carrying amounts and fair values of the Group's and the Company's financial instruments are as follows:

Group

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**1,569,479**	1,138,562	**1,569,479**	1,138,562
Pledged deposits	**111,980**	28,811	**111,980**	28,811
Trade receivables	**901,236**	742,255	**901,236**	742,255
Bills receivable	**791,449**	691,190	**791,449**	691,190
Financial assets included in prepayments, deposits and other receivables	**26,650**	34,908	**26,650**	34,908
Available-for-sale investments	**400**	400	**400**	400
	3,401,194	2,636,126	**3,401,194**	2,636,126
Financial liabilities				
Interest-bearing bank and other borrowings	**503,072**	124,130	**503,479**	126,311
Trade payables	**1,012,637**	718,381	**1,012,637**	718,381
Bills payable	**196,087**	162,780	**196,087**	162,780
Financial liabilities included in other payables and accruals	**110,352**	73,194	**110,352**	73,194
	1,822,148	1,078,485	**1,822,555**	1,080,666

42. FAIR VALUE AND FAIR VALUE HIERARCHY (continued)

Company

	Carrying amounts		Fair values	
	2010	2009	**2010**	2009
	RMB'000	RMB'000	**RMB'000**	RMB'000
Financial assets				
Cash and cash equivalents	**1,244,201**	770,735	**1,244,201**	770,735
Pledged deposits	**83,003**	21,790	**83,003**	21,790
Trade receivables	**676,218**	534,041	**676,218**	534,041
Bills receivable	**713,685**	614,035	**713,685**	614,035
Financial assets included in prepayments, deposits and other receivables	**179,634**	150,625	**179,634**	150,625
	2,896,741	2,091,226	**2,896,741**	2,091,226
Financial liabilities				
Interest-bearing bank and other borrowings	**500,000**	14,381	**500,000**	14,459
Trade payables	**926,208**	648,932	**926,208**	648,932
Bills payable	**161,550**	142,016	**161,550**	142,016
Financial liabilities included in other payables and accruals	**81,955**	93,975	**81,955**	93,975
	1,669,713	899,304	**1,669,713**	899,382

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:

Cash and cash equivalents, pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, current portion of interest-bearing bank and other borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The fair values of the non-current portion of interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments on similar terms, credit risk and remaining maturities.

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

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

Foreign currency risk

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

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

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the Canadian dollar, United States dollar, Japanese yen and Great British Pound exchange rates, with all other variables held constant, of the Group's profit before tax (due to change in the fair value of monetary assets and liabilities).

	Increase/ (decrease)	Increase/(decrease) in profit before tax	
	%	**2010**	2009
		RMB'000	RMB'000
If RMB strengthens against the Canadian dollar	10	**2,511**	(11,304)
If RMB weakens against the Canadian dollar	(10)	**(2,511)**	11,304

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease)	Increase/(decrease) in profit before tax	
	%	2010 RMB'000	2009 RMB'000
If RMB strengthens against the United States dollar	10	(9,577)	(2,418)
If RMB weakens against the United States dollar	(10)	9,577	2,418

	Increase/ (decrease)	Increase/(decrease) in profit before tax	
	%	2010 RMB'000	2009 RMB'000
If RMB strengthens against the Japenese yen	10	16,292	6,538
If RMB weakens against the Japenese yen	(10)	(16,292)	(6,538)

	Increase/ (decrease)	Increase/(decrease) in profit before tax	
	%	2010 RMB'000	2009 RMB'000
If RMB strengthens against the Great Britain pound	10	(1,828)	7,903
If RMB weakens against the Great Britain pound	(10)	1,828	(7,903)

Credit risk

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

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer and by geographical region. At the end of the reporting period, the Group had certain concentrations of credit risk as 20% (2009: 22%) and 51% (2009: 65%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, within the operating segment.

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

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

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

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

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

Group

2010

	On demand RMB'000	Within one year RMB'000	In the second year RMB'000	In the third to fifth years RMB'000	Beyond five years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	500,739	1,053	1,687	—	503,479
Trade payables	—	1,012,637	—	—	—	1,012,637
Bills payable	—	196,087	—	—	—	196,087
Financial liabilities included in other payables and accruals	110,352	—	—	—	—	110,352
	110,352	1,709,463	1,053	1,687	—	1,822,555

2009

	On demand RMB'000	Within one year RMB'000	In the second year RMB'000	In the third to fifth years RMB'000	Beyond five years RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	25,219	96,964	1,192	2,705	231	126,311
Trade payables	—	718,381	—	—	—	718,381
Bills payable	—	162,780	—	—	—	162,780
Financial liabilities included in other payables and accruals	73,194	—	—	—	—	73,194
	98,413	978,125	1,192	2,705	231	1,080,666

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Company

2010

	On demand RMB'000	Within one year RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	500,000	500,000
Trade payables	—	926,208	926,208
Bills payable	—	161,550	161,550
Financial liabilities included in other payables and accruals	81,955	—	81,955
	81,955	1,587,758	1,669,713

2009

	On demand RMB'000	Within one year RMB'000	Total RMB'000
Interest-bearing bank and other borrowings	—	14,459	14,459
Trade payables	—	648,932	648,932
Bills payable	—	142,016	142,016
Financial liabilities included in other payables and accruals	93,975	—	93,975
Guarantees given to banks in connection with facilities granted to subsidiaries	—	80,299	80,299
	93,975	885,706	979,681

43. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or issue new shares. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2010 and 31 December 2009.

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

	Group	
	2010	2009
	RMB'000	RMB'000
Interest-bearing bank and other borrowings	**503,072**	124,130
Trade payables	**1,012,637**	718,381
Bills payable	**196,087**	162,780
Other payables and accruals	**392,017**	322,278
Less: Cash and cash equivalents	**(1,569,479)**	(1,138,562)
Net debt	**534,334**	189,007
Equity attributable to owners of the parent	**4,405,923**	3,780,443
Capital and net debt	**4,940,257**	3,969,450
Gearing ratio	**11%**	5%

44. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 March 2011.

"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 80% owned subsidiary of the Company
"Board" or "Board of Directors"	the board of Directors of the Company
"CG Code"	the Code on Corporate Governance Practices
"China Railway"	China Railway Group Limited, a joint stock limited liability company incorporated in the PRC whose A shares and H shares are listed on the Shanghai Stock Exchange and the main board of the Stock Exchange, respectively
"China Railway Bus"	中鐵寶工有限責任公司(China Railway Bus Co., Ltd.) holds 20% of the equity interests in Baoji Times, a wholly-owned subsidary of China Railway
"China Railway Group"	China Railway and its subsidiaries
"Company"	株洲南車時代電氣股份有限公司 (Zhuzhou CSR Times Electric Co., Ltd.)
"CSR"	中國南車股份有限公司 (CSR Corporation Limited), formerly known as (China South Locomotive & Rolling Stock Corporation Limited), a joint stock limited liability company incorporated in the PRC whose A shares and H shares are listed on the Shanghai Stock Exchange and the main board of the Stock Exchange, respectively. CSR is directly and indirectly owned as to 55.07% by CSRG and holds the entire equity interest in the Parent Company
"CSRG"	中國南車集團公司 (CSR Group), formerly known as 中國南方機車車輛工業集團公司 (China South Locomotive & Rolling Stock Industry (Group) Corporation), a PRC State-owned enterprise; the ultimate controlling shareholder of the Company
"CSRG Group"	CSRG and its subsidiaries (including the Parent Group but excluding the Group)
"CSR Investment & Leasing"	南車投資租賃有限公司(CSR Investment & Leasing Co., Ltd.), formerly known as 新力博交通裝備投資租賃有限公司(New Leap Transportation Equipment Investment & Leasing Co., Ltd.), a wholly-owned subsidiary of CSR, and one of the Promoters
"CSR Sifang Co., Ltd."	南車青島四方機車車輛股份有限公司 (CSR Qingdao Sifang Locomotive & Rolling Stock Co., Ltd.), formerly known as 南車四方機車車輛股份有限公司 (CSR Sifang Locomotive & Rolling Stock Co., Ltd), held as to 97.17% by CSR
"CSR Zhuzhou"	南車株洲電力機車有限公司 (CSR Zhuzhou Electric Locomotive Co., Ltd.), held as to100% by CSR ; one of the Promoters
"Directors"	the directors of the Company
"Dynex"	Dynex Power Inc., a joint stock company listed on the TSX Venture Exchange, Toronto, Canada (stock code: dynex) whose 75% equity interest was acquired by the Company in October 2008. Dynex Semiconductor Ltd. is its only operating subsidiary and its headquarters is located in Lincoln, England
"Group"	the Company and its subsidiaries
"Hangzhou Electric"	杭州南車電氣設備有限公司 (Hangzhou CSR Electric Equipment Co., Ltd.), a wholly-owned subsidiary of the Company

"Kunming China Railway"	昆明中鐵大型養路機械集團有限公司(China Railway Large Maintenance Machinery Co., Ltd. Kunming), one of the Promoters of the Company, is a wholly-owned subsidiary of 中國鐵建股份有限公司(China Railway Construction Corporation Limited), whose A shares and H shares are listed on Shanghai Stock Exchange and the main board of the Stock Exchange, respectively
"Kunming China Railway Group"	Kunming China Railway and its subsidiaries
"Kunming Electric"	昆明南車電氣設備有限公司(Kunming CSR Electric Equipment Co., Ltd.), a wholly-owned subsidiary of the Company
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange
"Ningbo Times"	寧波南車時代傳感技術有限公司(Ningbo CSR Times Sensor Technology Company, Ltd.), a wholly-owned subsidiary of the Company
"Parent Company" or "CSR ZELRI"	南車株洲電力機車研究所有限公司(CSR Zhuzhou Electric Locomotive Research Institute Co,. Ltd.), a wholly-owned subsidiary of CSR, one of the Promoters and also the controlling shareholder of the Company
"Parent Group"	the Parent Company and its subsidiaries (excluding the Group)
"PRC"	The People's Republic of China
"Promoters"	the promoters of the Company, being CSR ZELRI, CSR Zhuzhou, CSR Investment & Leasing, Qishuyan Works and Kunming China Railway
"Qishuyan Works"	中國南車集團戚墅堰機車車輛廠(CSR Qishuyan Locomotive & Rolling Stock Works), a wholly-owned subsidiary of CSRG and one of the Promoters
"Shenyang Times"	沈陽南車時代交通設備有限公司 (Shenyang CSR Times Transportation Equipment Co., Ltd.), a wholly-owned subsidiary of the Company
"Shiling"	株洲時菱交通設備有限公司(Zhuzhou Shiling Transportation Equipment Company, Ltd.), held as to 50% by the Company, as to 40% by Mitsubishi Electric Corporation and as to 10% by Mitsubishi Electric (China) Ltd.
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Supervisory Committee"	the supervisory committee of the Company
"the year" or "the reporting period"	the financial year ended 31 December 2010
"Times Electronics"	株洲時代電子技術有限公司(Zhuzhou Times Electronics Technology Co., Ltd.), a wholly-owned subsidiary of the Company
"Times Equipment"	株洲時代裝備技術有限公司 (Zhuzhou Times Equipment Technology Co., Ltd.), a wholly-owned subsidiary of the Company
"Times Information"	北京南車時代信息技術有限公司(Beijing CSR Times Information Technology Co., Ltd.), a wholly-owned subsidiary of the Company
"Times New Materials"	株洲時代新材料科技股份有限公司 (Zhuzhou Times New Materials Technology Co., Ltd.), whose shares are listed on the Shanghai Stock Exchange
"Zhuzhou Siemens"	Siemens Traction Equipment Ltd., Zhuzhou, held as to 30% by the Company, as to 20% by CSR Zhuzhou and as to 50% by Siemens Ltd., China

Basic Corporate Information

1	**Name in Chinese**	株洲南車時代電氣股份有限公司
	Name in English	Zhuzhou CSR Times Electric Co., Ltd.
2	**Authorized representatives**	Ding Rongjun Tang Tuong Hock, Gabriel
3	**Company secretary**	Tang Tuong Hock, Gabriel
	Qualified accountant	Tang Tuong Hock, Gabriel
	Registered office	Times Road, Shifeng District, Zhuzhou, Hunan Province, PRC, 412001
	Telephone	+86 731 2849 8028
	Fax	+86 731 2849 3447
	Website	http://www.timeselectric.cn
	Principal place of business in Hong Kong	Unit 1106, 11th Floor, Jubilee Centre, 18 Fenwick Street, Wanchai, Hong Kong
4	**Listing information**	H Share The Stock Exchange of Hong Kong Limited Stock Code : 3898 Stock Short Name: CSR Times Electric
5	**H share registrar**	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East Wanchai Hong Kong
6	**Legal advisers**	Minter Ellison Grandall Legal Group
7	**Auditors**	Ernst & Young 18th Floor, Two International Finance Centre, 8 Finance Street, Central, Hong Kong